FINANCIAL TIMES

World Business Newspaper http://www.FT.com

FRIDAY MARCH 19 1999

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Terror of time – so much to do, but so few hours in the day

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New rush to enshrine governance codes
Separate section

Bill Gates on Business

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Second in a series of exclusive extracts from his new book
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Italian move could ease EU deal

D'Alema gesture may pave way for accord at Berlin summit

By James Blitz in Rome, Quentin Peel in London and Michael Smith in Brussels

Gerhard the German chancellor, has won a vital concession from Italy in the Agenda 2000 negotiations on overhauling the finances of the European Union that could open the way to a deal at next week's summit in Berlin.

At the same time he has told his EU counterparts that he will not trigger a confrontation with the UK over its budget rebate at the summit, thus heading off one potential source of national veto.

The outlines of a potential settlement started to emerge yesterday, as the crisis caused by the mass resignation of the European Commission on Monday seemed to galvanise the EU governments into seeking a deal.

The Italian concession – which still depends on reaching agreement on all other elements in the complex package of farm reforms, regional funding, and budget finance – would increase Rome's net contributions to the Brussels budget by about L1,000bn (€516.5m, $560.5m) between 2000 and 2006.

This would be achieved by changing the proportion derived from value added tax. That would in turn reduce Germany's net contribution by a small amount, which is a vital German interest in the negotiations.

Mr Massimo D'Alema, the Italian prime minister, made the gesture at talks with Mr Schröder on Wednesday evening, as the chancellor continued a whistle-stop tour of European capitals.

It is seen in Rome as directly linked to the Italian premier's promotion of Romano Prodi, his predecessor, as the next president of the European Commission. The German chancellor also made clear that he was not prepared to force a confrontation with Britain over the UK budget rebate for fear of alienating Tony Blair, the prime minister.

"Schröder is not willing to tackle the issue of the UK rebate next week," said a senior Italian government official. "He does not rule out coming back to the British rebate at a later date. But he made the political argument that a confrontation at this moment would make it more difficult for Tony Blair to bring the UK into the euro."

In spite of Mr Schröder's apparent concession, the UK is still likely to face strong pressure in Berlin on its contributions to the future cost of EU enlargement. "We don't now ask for the rebate to be withdrawn, but we think that at least we must exclude enlargement expenditure from any rebate," a French official said yesterday.

He said the other member states were unanimous that Britain must contribute its full share to the extra costs likely once the first east European states join the EU, rather than get the same rebate it receives on the rest of the budget.

Mr Blair will come under huge pressure to make that concession in Berlin, as France will have to agree to drastic cuts in farm spending, Italy to increase its contributions, and Spain to receiving less money in regional subsidies, if a deal is to be done on Agenda 2000. Germany will also have to accept a much smaller reduction in its DM22bn (€11.2bn, $12.3bn) net contributions to the budget.

However all of those moves now seem more likely in the wake of the crisis in the Commission, because the pressure is far greater for the EU governments to show they can still take vital decisions. Indeed, Italy believes it may also be possible to agree [illegible] Berlin on Mr Prodi as the n[illegible] Commission president.

Deutsche sets aside €3bn for takeovers

Bank's acquisition war chest is much larger than expected

By Uta Harnischfeger in Frankfurt

Deutsche Bank yesterday announced a much larger-than-expected DM6bn (€3bn) capital increase to help fund its acquisition of Bankers Trust of US, but also to stock its war chest for acquisitions in Europe's rapidly consolidating banking industry.

The company had been expected to raise DM4bn and its shares lost 2 per cent, to close at €51.00, as the market reacted coolly to the extra DM2bn and to 1998 results, which fell short of expectations. Operating profits stagnated at DM4.38bn, against DM4.36bn.

Deutsche said it wanted to equip itself for the "continuing consolidation in Europe," but chairman Rolf Breuer said it would not interfere in the big takeover battle taking place in France, where Banque Nationale de Paris has launched a hostile bid for Société Générale and Paribas, which have agreed a friendly merger.

There had been speculation that Deutsche might step in as a white knight for Société Générale or Paribas, but Mr Breuer said it would wait until the French consolidation was over.

He added that Banque Nationale de Paris had not asked it to take part in its bid. Deutsche intends to re-focus on Europe once the Bankers Trust purchase is completed. "We are the only truly European bank and while it is not our aim to cover every bit of Europe, we want to focus on certain geographical regions and on certain customers."

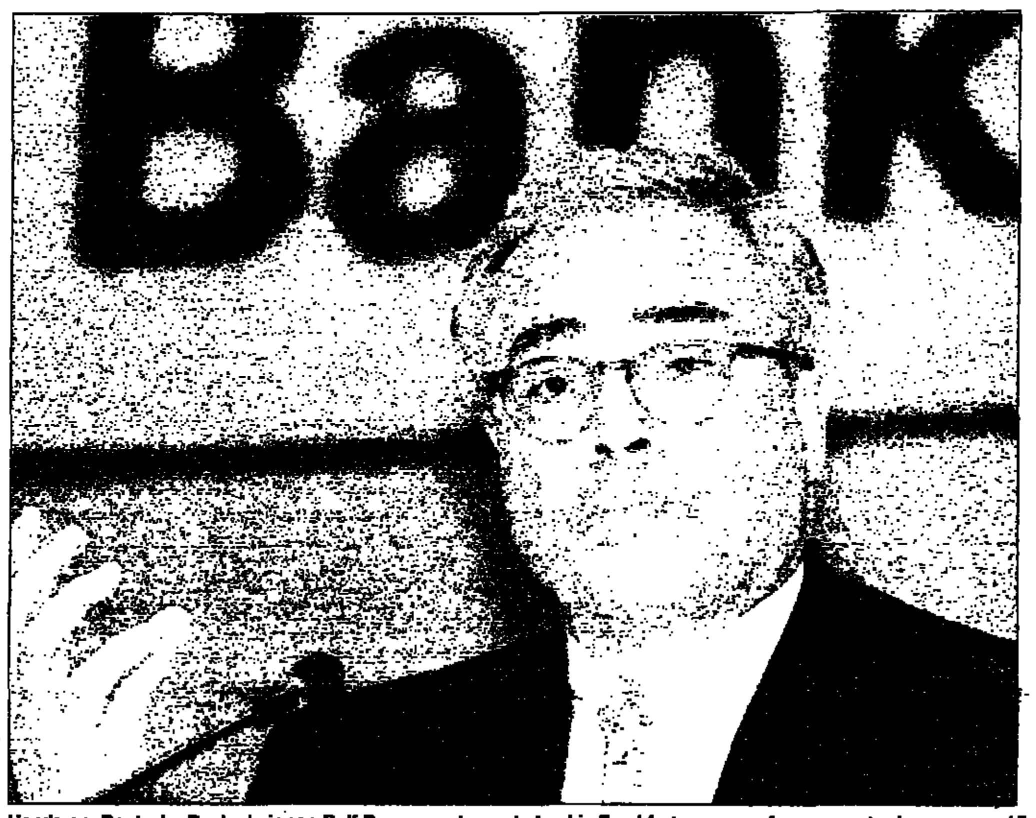
The bank announced this month that it would build a branch and telephone banking network for wealthy customers in France. It has retail banking activities in Italy, Spain and Belgium and it could use its extra DM2bn to expand its business in one of these countries.

Under the scheme announced yesterday, the bank will issue up to DM4bn of equity in a rights offering and will place a further DM2bn through a worldwide placement, excluding subscription rights, to take place in April. Deutsche Bank has already raised 60 per cent of the $10.1bn purchase price of Bankers Trust on the capital market.

Some analysts complained that the extra DM2bn was too little to make a serious European purchase but too much to raise without any clear purpose at a time when the bank's shares have been under pressures.

They suggested DM2bn would be sufficient to buy businesses in France that the bid protagonists there might be forced to discard.

Mr Breuer said he expected the US authorities to approve the merger with Bankers Trust in the second quarter. He added that US approvals did not hinge on the setting up of a compensation fund for second world war Holocaust victims, which was proving legally difficult.



Hands on: Deutsche Bank chairman Rolf Breuer gestures during his Frankfurt press conference yesterday AP

The bank reported 1998 net income of DM3.38bn, up from DM 1.019bn. That was due to a DM 3.2bn special dividend from Daimler-Benz. Analysts had hoped for net profits closer to DM4bn. Mr Breuer said earnings in the first two months of 1999 had been "excellent." He added: "Our operating profit was more than one billion marks, which was well above the high, year-earlier results." It also emerged yesterday that Deutsche plans to sell the Australasian asset management business of Bankers Trust once its takeover is complete.

LEX, Page 22; Plans to sell Bankers Trust arm, Page 26

WORLD NEWS

Pressure mounts on Serbs as Albanians sign Kosovo deal

Pressure mounted on the Serbs to back a Kosovo peace deal after the Albanian delegation at talks in Paris formally signed the peace agreement. **Page 22**

UN warns over water shortages
Nearly a third of the world's population will face severe water shortages in 25 years' time, increasing the danger of war over water supplies, the United Nations said. **Page 22**

Yeltsin orders Skuratov inquiry
President Boris Yeltsin ordered Russia's security council to investigate any "misdemeanours" committed by top law official Yuri Skuratov. **Europe, Page 3**

No arms progress in Ulster talks
Bertie Ahern, prime minister of the Republic of Ireland, said there was no breakthrough in sight in the dispute about para-military weapons in spite of talks in Washington between republicans and unionists. **UK, Page 8**

IOC approves radical reforms
The International Olympic Committee approved radical reforms to the bidding process for the 2006 winter Olympic Games in the wake of the Salt Lake City corruption scandal.
International, Page 6

China attacks 'cold war' critics
China accused critics of Sino-US ties of having a "cold war mentality" in a sign of Beijing's deepening concern over a souring of relations. **US, Page 5**

Romania to support its currency
Romania's central bank is to intervene to support the national currency after the leu fell more than 6 per cent against the US dollar in a day. **Europe, Page 3**

China offers Taiwan contacts
China offered to send its top Taiwan affairs negotiator to the island this autumn in a proposal that sets a possible timetable for contacts between Beijing and Taipei. **Asia-Pacific, Page 4**

Mandela praises help by Sweden
Nelson Mandela, South Africa's president, hailed Sweden's role in galvanising the international anti-apartheid campaign.
Europe, Page 3

Cambodia rejects trial move
Cambodia reiterated its opposition to an international tribunal for former Khmer Rouge guerrilla group leaders in spite of a call for one by UN Secretary-General Kofi Annan. **Asia-Pacific, Page 4**

BUSINESS NEWS

Westland and Agusta to merge helicopter ventures

GKN Westland of the UK and Agusta of Italy have agreed to merge their helicopter operations, marking further consolidation of Europe's aerospace industry. GKN, the engineering group, and Finmeccanica, the state-controlled company, will form a joint venture that will have 20 per cent of the world market. **Page 23; Moment of truth yet to arrive, Page 29; Raytheon seeks link-ups, Page 25**

KPMG, the world's fourth-largest accountancy firm, has been warned by the US Securities and Exchange Commission that rapid implementation of plans for an initial public offering of part of its consultancy business could cost it the right to audit US public companies. **Page 23**

Nippon Steel, Japan's largest steel maker warned investors that pre-tax profits would collapse 83 per cent this year because losses from unprofitable subsidiaries would be larger than expected. **Asia-Pacific companies, Page 24**

Olivetti, the Italian telecommunications group, could face a bill for €1.6bn (L3,096bn, $1.76bn) if its hostile €52.6bn takeover offer for Telecom Italia succeeds. **European companies, Page 26; Lex, Page 22**

Bertelsmann, the privately owned German media company, is to lobby the US government to relax restrictions on foreign companies controlling US television networks as part of its efforts to expand operations in North America. **European companies, Page 26**

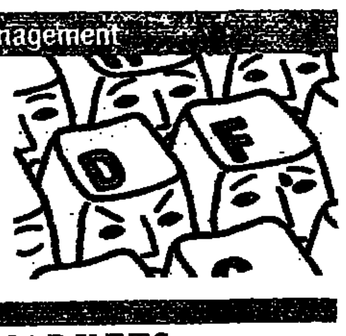
Axa, France's biggest insurer, reported a 26.8 per cent rise in 1998 net profits to €1.53bn (FFr10bn, $1.68bn) and predicted 15 per cent growth in profits per share this year. **European companies, Page 26; Lex Page 22**

Crédit Lyonnais, the French bank whose privatisation was launched this week, is negotiating a potential alliance with Mellon Bank of the US. **European companies, Page 26**

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets.
Page 30

Mastering Information Management

The FT's 12-part series on the I in IT continues on Monday.
Part Eight: the human factor



Consortium plans global tag system

By Andrew Edgecliffe-Johnson in New York

Three giant consumer products manufacturers, frustrated with losses from shoplifting and counterfeiting, have formed an alliance to develop a global standard for security tags on packaging.

Procter & Gamble, Johnson and Johnson and Eastman Kodak hope to begin trials of a prototype standardised tag early next year. Once a workable system has been found the consortium will hand over the licensing to a not-for-profit organisation.

The tags will be built into products' packaging rather than attached manually; they will carry basic product information, and should be adaptable to new technologies such as tills that scan the entire contents of a supermarket cart in an instant.

Currently the radio frequency, acousto-magnetic or electro-magnetic security systems supplied by manufacturers including Checkpoint and Sensormatic are incompatible with each other.

Jerome Johnson, Kodak's representative on the consortium, said: "At present manufacturers can either invest in one type of tag, knowing that it will be invisible to some of their retailers' detection systems, or they can purchase multiple tags, forcing them to maintain multiple inventories of identical products."

Steve David, head of customer business development for Procter & Gamble, added: "Retailers' execution can ruin the look of our product.

Security tags get in the way, and on pharmaceutical packaging, they can cause health risks if the tag obscures dosage information." The manufacturers also hope the tags will help reduce packaging costs.

The consortium will spend the next three months listening to other manufacturers and trade associations and seeking technology partners. It has already signed up NovaVision, a US group specialising in hologram technology.

Pat Rizzotto, Johnson & Johnson's vice president for business development, said the technology would be available to "all comers" once it had been developed.

The new security tags will be introduced on a voluntary basis, with manufacturers paying a licensing fee of between $500 to $10,000 for the use of barcodes.

The consortium is looking at the Uniform Code Council, which oversees barcoding, as a possible model for the future management of its tagging operation.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9,906.88	(+27.47)
NASDAQ Composite	2,444.64	(+15.67)
Europe and Far East		
CAC40	4,152.37	(-17.64)
DAX	5,013.62	(-63.81)
FTSE 100	6,114.3	(-26.3)
FTSE Eurotop 300	1,242.43	(-3.42)
Nikkei	15,717.92	(-550.19)
US Lunchtime RATES		
Federal Funds	4.6875%	
3-mth Treas Bills: Yld	4.6%	
Long Bond	96[illegible]	
Yield	5.474%	
OTHER RATES		
UK: 3-mo Interbank	5½%	(5[illegible]%)
UK: 10 yr Gilt	111.25	(111.22)
Euro Euribor	3.032%	(3.036%)
Germany: 10 yr Bund	96.66	(96.48)
Japan: 10 yr JGB	100.959	(100.814)
NORTH SEA OIL (Argus)		
Brent Dated	$13.38	(12.99)

GOLD		
New York: Comex		
(Mar)	$283.0	(283.5)
London:		
	$283.25	(284.25
DOLLAR		
New York: Lunchtime		
£	1.6315	
€	0.9097	
SFr	1.4527	
Y	117.645	
London:		
£	1.6301	(1.6296)
€	0.9102	(0.9084)
SFr	1.4541	(1.4514)
Y	117.765	(118.42)
Tokyo Close		Y 118.75
EURO (London)		
$	1.0987	(1.1008)
£	0.6740	(0.6755)
Y	129.383	(130.357)
SFr	1.5976	(1.5977)

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr265	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn18.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr19.00	Latvia	Ls1.65	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	FM13.00(€2.19)	Lebanon	LBP3,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.250
Hungary	Ft380	Norway	NKr18.00	UAE	Dh13.00

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WORLD NEWS
EUROPE

EUROPEAN COMMISSION PLAN TO LIBERALISE MARKET PUT ON HOLD □ OTHER INITIATIVES ALSO FROZEN

Pension fund shake-up thrown into disarray

By Jane Martinson and Emma Tucker in Brussels

Plans for a directive to liberalise the European pension fund market have been thrown into disarray by this week's shock resignation of the European Commission, one of a series important legislative initiatives to have been temporarily frozen.

Mario Monti, the single market commissioner who stepped down along with his colleagues on Monday and who has championed the pension fund proposals, admitted yesterday that a draft communication on pension funds would be delayed because of the Commission's decision to act on only "current and urgent business".

Addressing a pension fund conference organised by the Financial Times in Brussels, Mr Monti said: "The need to take action is urgent. Action is long, long overdue in this area, which is one where national sensitivities, whether justified or unjustified, and national concerns over real or apparent sovereignties have had an enormous role in making progress slow."

The pension fund proposals, due to be published next Wednesday, were eagerly awaited by financial service providers and companies throughout Europe.

In a speech he said was "nothing more than perhaps advice to my successor", Mr Monti said the proposals would help introduce the prudential supervision of pension funds, the co-ordination of tax arrangements and improved labour mobility.

Mr Monti's pension plans are among a raft of initiatives put on the back burner by the Commission's mass resignation.

Over the next few weeks the EU executive was due to produce an amended version of its contested copyright directive taking on board parliamentary amendments. The draft law was considered vital to the successful development of internet services in the single market.

Another victim of the caretaker Commission's decision to pare activity to the legally necessary minimum was a competition white paper. The final plank of a major overhaul of competition policy, the document had been laboured over by officials for two years.

However, the day to day business of competition policy will not be affected. Officials in the competition directorate will continue to work on merger notifications (which must be dealt with within legally binding deadlines), joint ventures, state aid investigations, complaints about restrictive practices and abuses of a dominant position.

A communication establishing guidelines on the legality of state guarantees under subsidy rules is still expected to see the light of day, and there will be no respite for German publishers from an inquiry into Germany's fixed book price system.

As 1999 was the last year of the incumbent Commission's reign most commissioners had rushed to get their last legislative proposals adopted. Looming European parliamentary elections added to the pressure.

However, numerous single market initiatives will be shelved, many of which had been demanded by the parliament.

● The manager of one of Europe's largest pension funds yesterday called on the industry to keep up pressure on the European Commission to allow funds to be run on a more pan-European basis.

Bruce Garner, head of pensions at BP/Amoco, told the FT conference in Brussels that investment restrictions and tax discrimination still created barriers to running cost-effective pan-European pension schemes. Consultants believe multinationals such as BP/Amoco, could save millions of pounds by merging their separately run European funds.

Mr Garner offered support to those prepared to launch a test case at the European Court of Justice designed to remove tax barriers. An association launched last year to prepare this case foundered through disagreement over tactics, however.

On the Shelf
- White paper on reform of competition policy
- Communication on a new directive to liberalise EU pension fund market
- Proposals to restrict working time for airline pilots
- Amended proposal on copyright in the information society
- Proposal for VAT on postal services
- Minor legislation for liberalising European rail
- Transparency in the "secondary market" for airline slots
- Amended proposal for "visiting motorists" legislation. (Fast and fair treatment for EU citizens involved in car accidents abroad.)
- Three directives on the rights of residence of non-active citizens (pensioners, students etc)
- Directive to limit air pollution damaging the ozone layer
- Communication on priorities for the single market
- Communication on cross border payments and bank charges
- Amendments to public procurement directive
- Money laundering directive
- Commission's interpretative communication on the general good in the insurance sector

If no new Commission by June
- Proposal for a directive on patenting computer programmes
- Proposal for a regulation to establish an EU patent

Prodi leading race to head Commission

By James Blitz in Rome, Gordon Cramb in Amsterdam and Peter Wise in Lisbon

Romano Prodi, the former Italian prime minister, was emerging yesterday as the clear front runner to become next president of the European Commission.

Italian government officials believe it may even be possible to reach agreement on his nomination at next week's European Union summit in Berlin, in order to defuse the crisis caused by the resignation of the entire Commission on Monday.

Javier Solana, the Spanish secretary-general of Nato, is regarded as a credible alternative, but as a Socialist he is unlikely to be promoted with the same enthusiasm by Spain's conservative government.

The fact that he would be moving from Nato to the Commission is a concern to Paris, which is loath to see someone move directly from the military Atlantic alliance to the EU.

The other potential contenders are Wim Kok, Dutch prime minister, and António Guterres, Portuguese premier, but both are believed to be ruled out by their domestic political situations.

Mr Kok won re-election less than a year ago. Although he would be the favourite candidate of Britain's Tony Blair, he has rejected the suggestion.

Mr Guterres is highly regarded by his fellow EU leaders, but he has ruled himself out of the running because his Socialist party considers his leadership vital to winning the next election.

AGENDA 2000 GERMANY FEARS THAT DISCUSSIONS ON NEW COMMISSION MAY DERAIL DEAL

Bonn pushes for EU summit to stay focused on reforms

By Ralph Atkins in Bonn, Michael Smith in Brussels and David White in Madrid

Germany was yesterday pushing for next week's European Union summit in Berlin to stay focused on the "Agenda 2000" reforms of EU finances, fearing that discussion of a new European Commission could derail progress on a deal.

Günter Verheugen, Europe minister, said he expected EU member states would agree in Berlin only on a procedure for selecting a new Commission, which would be done later. This would leave the rest of the Berlin summit free for negotiations on Agenda 2000.

The procedure resolved in Berlin, however, would include a decision on whether to have an "interim" Commission until the end of the year, or a team that would remain in place for the following five years.

Joschka Fischer, foreign minister, stressed the importance of securing agreement on Agenda 2000 and indicated he would prefer to appoint a new Commission team that would serve a full term, saying he saw "little sense" in having a Commission that lasted only until the end of the year.

Bonn believes a separate meeting of government heads – probably not a formal summit – could follow soon after the Berlin summit. At that point, a successor to Jacques Santer, the outgoing Commission president, could be agreed.

In a parliamentary debate in Bonn, Mr Fischer indicated Germany would push for the selection of the new Commission following procedures set out in the 1997 Amsterdam EU treaty – even though it is not yet in force.

The Amsterdam treaty requires separate approval by the European parliament of the president and the rest of the Commission team.

Diplomats in Brussels believe the Commission crisis has in fact increased the likelihood of a deal on Agenda 2000 next week. "We needed a crisis to get things moving," said one. "We cannot afford another failure," another said.

Some governments – including Spain's, until recently considered the most obdurate state in the reform negotiations – fear that the Commission could be unravelled if agreement is delayed.

Abel Matutes, Spanish foreign minister, said it would be "irresponsible" for the EU to leave budget reform until a new Commission is in place.

In spite of the growing optimism there are still big issues to be resolved, including Britain's budgetary rebate, which reduces its contributions to the EU budget, and the push by Germany, Austria, Sweden and the Netherlands to reduce their contributions.

There could also be fierce debate about a farm deal agreed by agriculture ministers last week. Heads of state want €7bn ($7.6bn) more in savings over the 2000-2006 period to force a spending freeze.

Finnish rainbow coalition fails to add colour to campaign

There have been few arguments and little controversy in the run-up to Sunday's general election, writes **Tim Burt**

Outside the prime minister's office in Helsinki, the security guards are watching television. They chuckle occasionally at the imported British show, *Keeping Up Appearances*, a comedy of English middle-class snobbery and manners.

Paavo Lipponen ignores the programme as he passes. The Finnish prime minister, his officials explain, has appearances of his own to maintain – defending his government's record ahead of a general election on Sunday.

Mr Lipponen believes his "rainbow coalition" – the five-party administration led by the Social Democrats – deserves a repeat performance after presiding over four years of solid growth and leading the country into European economic and monetary union.

"We will be telling people that we have assembled a coalition that has brought stability with growth and employment," says the prime minister. "This country needs the SDP."

The dilemma for Finland's politicians is that only one outcome is certain from next Sunday – another multi-party coalition government.

Given that every party wants a seat at the cabinet table, none is willing to lambaste opponents or come out with controversial policy statements. Mr Lipponen's left-of-centre SDP has, for example, worked happily in coalition with the Conservative party led by Sauli Niinistö, the current finance minister. In the past, it has also co-operated with the Centre party, the country's largest opposition group.

"As we might have slower growth because of international economic developments, it makes broad co-operation more important," says Mr Lipponen.

Although the parties are distinguished more by what unites than divides them, issues have begun to emerge that make some coalition formulas less likely than others.

The SDP, partly under pressure from its Leftist Alliance partners, has proposed to increase taxation on capital and dividends. It has also vowed to defend current social security benefits.

Esko Aho, the Centre party leader and former prime minister, is strongly opposed to dividend taxation and wants to see income tax cut by 1 per cent a year during the next parliament. "It is essential to push forward reforms of labour market legislation and fiscal policy," he says.

Mr Aho's right-of-centre group also hopes to enforce new labour market rules on industrial action, an issue in the spotlight following a damaging five-week strike by Finnish air traffic controllers.

The strike, severely disrupting air services to and from Finland, also raised doubts about the government's policy of urging wage moderation. The controllers demanded a 26 per cent pay increase, and settled for a higher-than-average 13 per cent rise.

The Centre party has accused the Social Democrats of failing to act, arguing it has been constrained by old union allegiances.

Even Mr Niinistö concedes that changes may be necessary to prevent "special groups" from causing such disruption in the future. And like his Centre party counterpart, he too opposes dividend taxation.

But such rows – including differences over how to reduce unemployment or distribute regional aid – are largely cosmetic. All the main party leaders, who will each be contesting parliamentary seats in Helsinki for the first time, are ready to compromise in exchange for power.

None of them, moreover, differ markedly on the key planks of Finland's economic success: sound management of public finances, the pursuit of low inflation and ardent enthusiasm for Emu. Given that the largest parties are neck-and-neck in the opinion polls, they all want to lay claim to championing a stable economy and Finland's close links to Brussels.

Certainly, the economic indicators make good reading. Gross domestic product rose by 4.9 per cent last year, the central government deficit shrank by FM15bn (€2.52bn, $2.76bn) and household disposable income climbed 5.6 per cent.

Finland also qualified easily under the Maastricht criteria to become a founder member of the European single currency.

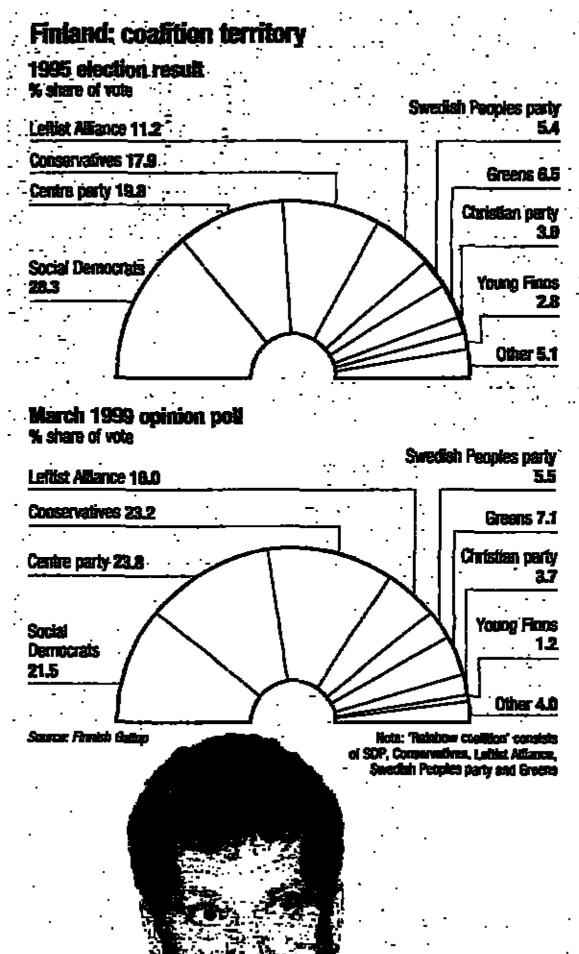
"Emu has brought stability," says Mr Niinistö. "Finland has changed since joining the EU four years ago and all of us recognise that we cannot go back to the old days of isolation."

Whatever party leads the next coalition, it will also remain committed to promoting the so-called Northern Dimension, the initiative Finland hopes to use to promote the Baltic and Nordic integration within the EU.

While such issues have not figured heavily during the campaign, senior government officials say they will have to do so in the coalition negotiations after the election. Those negotiations could prove difficult as whichever party leader becomes prime minister would have a higher than usual profile when Finland assumes the EU presidency in the second half of this year.

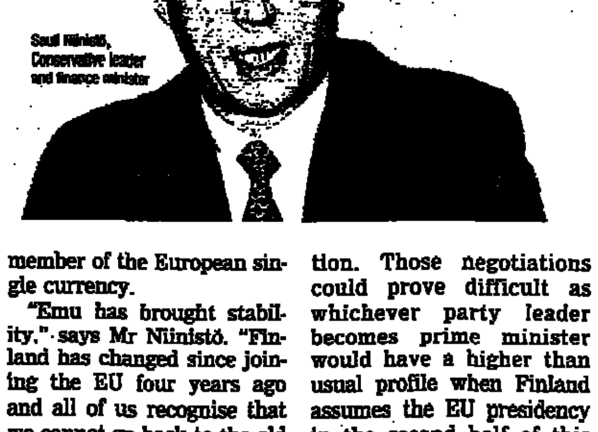
*With the post-poll negotia*tions likely to be so delicate, the election campaign has proved a lacklustre affair with none of the main parties unveiling bold manifestos. Leading columnists in *Helsinki have variously* described the contest as feeble, insipid and non-committal. "Even the term campaign sounds exaggerated," according to an editorial in the newspaper Iltalehti.

Finland: coalition territory



Source: Finnish Gallup

Note: "Rainbow coalition" consists of SDP, Conservatives, Leftist Alliance, Swedish Peoples party and Greens



Sauli Niinistö, Conservative leader and finance minister

Euro-zone rates left unchanged at 3%

By Wolfgang Münchau in Frankfurt

The European Central Bank last night left its short-term benchmark rate unchanged at 3.0 per cent.

The decision was anticipated in the financial markets, after the ECB indicated in its March monthly bulletin that the present level of interest rates was appropriate.

The ECB's executive council, which meets fortnightly, also left the emergency funding rate and the overnight deposit rates unchanged at 4.5 and 2.0 per cent respectively.

The ECB said in its March bulletin that there was no significant risk of annual price increases exceeding the ECB's ceiling of 2 per cent.

Yesterday's decision is *bound to trigger intense* speculation ahead of the next two ECB council meetings, scheduled for April 8 and April 22.

The first of these two meetings will be followed by a scheduled news conference.

Joachims Fels, ECB watcher at Morgan Stanley in London, said the euro-zone economy was at some risk of deflation, and predicted a rate cut before the end of April.

Some observers had argued the ECB would find it easier to cut interest rates after last week's sudden resignation of Oskar Lafontaine as Germany's finance minister.

Mr Lafontaine had repeatedly clashed with the ECB over interest rates.

But other argued that a decision to cut interest rates only a week after Mr *Lafontaine's resignation* might have been construed as a tacit admission by the ECB that politicians influence monetary policy decision, according to some observers.

NEWS DIGEST

NORWEGIAN OIL INDUSTRY

Statoil calls for tax breaks to boost sector

Statoil, Norway's state-owned oil company, has called for tax breaks and a lesser state role in the Norwegian oil industry as a way to boost the sagging sector. The call comes as the government considers possible oil tax breaks and prepares deeper production cuts next month in order to bolster the industry.

Last month, all three Norwegian oil companies reported disappointing 1998 results, with Statoil posting its worst in a decade. Harald Norvik, Statoil chief executive, proposed on Wednesday a number of concrete tax changes, including replacing the carbon dioxide tax with a national quota system, removing a production tax representing 8 to 16 per cent of gross production on all oil fields approved for development before January 1986, and drastically lowering the 50 per cent special tax on the petroleum industry.

He also called for the state to limit its direct financial ownership of licences on the Norwegian continental shelf to make room for other producers to share in the profit. The Norwegian state directly owns most production on the shelf, and 100 per cent of Statoil. **Valeria Sköld, Oslo**

GERMAN DEFENCE

Scharping threat to quit denied

A government spokesman yesterday denied news reports that Rudolf Scharping, German defence minister, had threatened to resign over proposed cuts in the defence budget.

The Defence Ministry spokesman said Mr Scharping had strongly resisted efforts to cut the budget at a parliamentary committee meeting on Thursday. But he rejected as "speculation and rumours" reports in German media that the minister had threatened to quit.

Mr Scharping reluctantly agreed to become defence minister in October after Gerhard Schröder, the Chancellor, promised there would be no such cuts. **Reuters, Bonn**

HOLOCAUST BANK ACCOUNTS

Search nearing its end

The search for unclaimed Swiss bank accounts dating back to the Holocaust era, headed by Paul Volcker, the former US Federal Reserve chairman, should be completed by the end of this month. However, Swiss bank officials do not believe there is much hope of finding much more than SFr70m ($47.9m) already discovered, of which less than 20 per cent is estimated to be related to Holocaust victims.

The Swiss Bankers Association (SBA) said yesterday that 9,700 claims have been made on 5,600 non-Swiss accounts. Some 9,600 of these have been passed to the banks concerned. A further 7,500 unrelated claims have been received. At the end of last year only SFr6m of the SFr70m had been returned and the SBA says many more claims have been made than originally expected. The SBA, at a seminar for foreign journalists in Berne, repeated industry estimates that the cost of the reviewing the second world war role of the Swiss banks was as much as SFr1bn. **William Hall, Zurich**

ESTONIAN DEFENCE

Plan to increase budget

The three party centre-right alliance which is likely to form Estonia's new government plans to increase the Baltic country's defence spending to meet Nato standards. According to a coalition agreement signed earlier this week by the three parties – Fatherland, Reform and Moderates – the government plans to raise defence spending from the current 1.33 per cent of gross domestic product to 2.0 per cent.

The boost will help bring Estonia's military in line with Nato standards by increasing the number of professional soldiers. A military development plan is also needed, the document said. The new government, which is likely to be led by Mart Laar, a former prime minister who launched radical market reforms in 1992, hopes to spur economic growth by eliminating corporate income tax on all reinvested profits, as well as on job-creating investments. The three parties have reiterated their commitment to the existing currency board, which pegs the kroon to the D-Mark, but said the kroon would eventually be re-pegged to the euro. **Matej Vipotnik**

FRENCH MERGER

Notification for approval

The European Commission said the proposed merger of France's Aerospatiale and Lagardère's Matra had been notified for regulatory approval in the European Union.

The filing was made on March 11, triggering a routine one-month probe. The Commission may, however, extend the deadline by a further two weeks if it has concerns about reduced competition and the companies are ready to address them.

Notification of the all-French telecoms-to-missiles merger came before any notification on the proposed acquisition by British Aerospace of the Marconi unit of General Electric of Britain.

A Commission spokesman declined to say whether the French government had made use of provisions allowing EU national capitals to ask companies involved in mostly defence mergers not to notify information that could harm their national interests.

The British government has made clear it would use those provisions, outlined in Article 223 of the EU treaty, in relation to the BAe/Marconi deal. Such a move would limit the Commission's assessment of the merger to the commercial, not military, sector in line with previous practice. It could also make the review more difficult in the case of so-called dual-use goods, or those with both military and civilian applications. **Reuters, Brussels**

GEORGIAN COMPLAINT

Russian bases criticised

A senior parliamentary official said yesterday the Georgian legislature would press President Eduard Shevardnadze to make Russia start closing its military bases in the former Soviet republic. "We have to start talks about a pull-out of two Russian bases," said Revaz Adamia, the head of parliament's military and security committee.

Mr Adamia blamed Russia for using the two bases – one near the capital Tbilisi and another in the breakaway region of Abkhazia – to destabilise the political situation in Georgia and help separatists. Russia has two other military bases in Georgia. He also accused Russian troops in the country of peddling weapons and said Moscow had failed to live up to an agreement to help Georgia restore control over Abkhazia, a condition of keeping the bases on its soil. Russia had refused to pay Georgia rent for the bases or even pay for electricity or water, he added. "It is time now to become harder with Russia. **Reuters, Tbilisi**

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Turks set for drop in tourism

By Leyla Boulton in Ankara

Turkey's tourist industry is bracing itself for a disappointing year following threats made to potential visitors by the banned Kurdish PKK guerrilla group. The country earned $8bn from tourism last year.

Before the capture of Abdullah Ocalan, the PKK leader, set off a wave of bombings in Istanbul to press for his release, Turkish travel agents had been forecasting a 15 per cent increase in the number of German visitors, who are their most important source of business.

But yesterday Oger Holding, the country's biggest tour operator for German tourists, said 70 per cent of its bookings for March and April had been cancelled because of the crisis.

Poll delay 'would lead to chaos'

Turkey's powerful armed forces yesterday warned parliamentarians trying to delay elections set for April 18 that to do so would lead to "serious chaos in Turkey".

Huseyin Kivrikoglu, chief of the general staff, gave the warning in a newspaper interview published yesterday. He said abolishing legislation that had banned certain Islamist leaders from the elections would bring "bigger chaos".

An extraordinary session of parliament convened by Islamists who want to lift the legislation yesterday voted 240-211 to set a no-confidence vote in Bülent Ecevit, the caretaker prime minister, for Monday. They need 276 votes to succeed.

The stock market closed 2.51 per cent up yesterday on hopes the intervention would forestall a crisis.

UK citizens have been warned by the Foreign Office that they could become "caught up in any trouble". British tourists formed the third largest contingent of foreign tourists to Turkey last year after nationals from the Commonwealth of Independent States.

But the UK Foreign Office stopped short of advising people against visiting Turkey. It said that in spite of a "substantial number of terrorist incidents" in Istanbul, there had been no recent attacks in coastal areas.

With its executives due to meet Turkish officials at the weekend to draw up a crisis strategy, the industry was putting a brave face on the problems yesterday.

"This does not mean people will not come to Turkey; every year there's a different crisis in the country," said Burcu Smolinka, a tour guide at the historic site of Cappadocia.

Talha Çamaş, president of the Turkish travel agents' association, reported that in spite of Easter cancellations, there had been no changes to longer-term bookings.

Turkey's foreign ministry, meanwhile, pointed out that the PKK has warned tourists to stay away from Turkey every year.

It added that the authorities would take "all the required steps to make Turkey a safe and pleasant place to visit".

Huseyin Kivrikoglu: warned of chaos if elections were delayed AP

LEU FALLS BY MORE THAN 6% AGAINST $

Romania will intervene to aid currency

By Joe Cook in Bucharest

Romania's central bank yesterday said it would intervene to support the national currency after the leu fell by more than 6 per cent against the US dollar in one day, raising fears of runaway inflation.

The leu has lost more than 36 per cent against the dollar since January and Bucharest shops selling imported goods yesterday closed in order to reprice their stock. Many Romanians queued at banks and exchange houses to buy dollars and D-Marks.

The news follows a recent run by depositors on state-owned Bancorex, the country's biggest and most troubled bank, and comes as the government is in talks with the World Bank and the International Monetary Fund over new loan agreements.

Romania risks defaulting on foreign debt service payments of $2.3bn this year. Official reserves, excluding gold, stand at $1.59bn.

Last week, the central bank said it was considering using the country's $927m of gold reserves as collateral to raise fresh loans.

The leu fell sharply on Wednesday after the central bank declined to intervene on the money market as $60m of domestic bonds were redeemed.

"The central bank cannot afford to spend a single dollar on supporting the currency because it has to service the foreign debt," said a London-based economist with a US investment bank, warning that to do so would jeopardise agreement with the IMF.

He said Romania was "in a very dramatic situation".

Traian Remes, the finance minister, said after a cabinet meeting that the government would unveil a plan next week to support the leu.

He added that he had "no moral right" to discuss details as this could affect the market at a "critical" time.

The London-based economist said Romania could follow the recent example of crisis-hit Ecuador and declare a "banking holiday" in order to "calm the market and buy time to avoid panic".

Romania's economic turmoil has heightened political tensions inside the country's four-way coalition. Two parties, the Peasants and the Liberals, are known to be discussing exchanging the education and finance portfolios, the latter held by the Liberals.

The Peasants, which is the biggest party of the coalition, has internal divisions that may yet see a faction led by a former prime minister, Victor Ciorba, break away.

Mandela praises help by Sweden

By Nicholas George and Tim Burt in Stockholm

Nelson Mandela, South Africa's president, yesterday hailed Sweden as the country that, arguably more than any other, galvanised the international anti-apartheid campaign.

At the end of a five-nation tour of northern Europe, Mr Mandela told the Swedish parliament: "It is fitting that what is probably our last official visit to Europe before retirement should include Sweden, which made a contribution to our liberation out of all proportion to your size".

During the apartheid years in South Africa, Sweden became the largest single financial supporter of the African National Congress. The Swedish government helped pay for the setting up of ANC offices, farm training centres and schools in exile, as well as the legal defence costs of anti-apartheid activities inside South Africa itself.

"Today, South Africa has powerful friends," said Mr Mandela. "There is a danger that we may forget those small countries who, when we were shunned by almost the entire world, stood with us and in time mobilised the international community".

Mr Mandela recalled that the last time he addressed the Swedish parliament nine years ago the first assembly to issue an invitation to the ANC leader "it was as a freedom fighter, only weeks out of jail, and still denied citizenship in the land of his birth".

Sweden was the first place he visited outside South Africa after his release, when he met Oliver Tambo, the then ANC president, who was recovering from a stroke in a Stockholm hospital.

Mr Mandela's tour, following stopovers in Finland, Denmark, Norway and the Netherlands, is expected to be one of his last international trips before South Africa's general elections and his retirement as president later this year.

His unreserved praise for Sweden's support of the ANC was interpreted by local politicians as a vote of confidence in Swedish foreign policy, an area where the country has rarely commanded the international spotlight.

Pierre Schori, deputy foreign minister, said Sweden's support of liberation movements in Southern Africa was an example of Swedish foreign policy at "its most successful".

But that policy was largely ad hoc, often led by individuals who smuggled funds to the ANC and other anti-apartheid organisations.

Bank sell-off upsets Slovaks

By Robert Anderson in Prague

The privatisation of Ceskoslovenska Obchodni Banka (CSOB), which owns bank branches in Slovakia and the Czech Republic, has led to a dispute that reflects the outstanding problems from the division of the former Czechoslovakia.

The Czech government could sell its 66 per cent stake as early as May, leaving Slovakia to sell its 25 per cent shareholding later at a potentially lower price. Moreover, Slovakia fears the new owner could demand it settle its disputed Sk15.6bn ($380m) debt with CSOB before buying its stake.

This debt dispute is one of the most intractable problems left from the 1993 break-up of Czechoslovakia. Its solution became even more difficult when Slovakia insisted it would not repay the money until the Czech national bank handed over gold reserves belonging to Slovakia.

The new governments in both countries have pledged to settle all outstanding issues by the end of this year but this will come too late for the CSOB sale.

The Slovak government wants to sell its stake at the same time as the Czechs to help keep this year's budget deficit to below 2 per cent of gross domestic product.

But the Czech authorities believe that adding the Slovak stake at this late stage will delay the long-awaited privatisation. "We will not wait until they board the train," said a CSOB spokesman.

The Czechs want to link any sale to a resolution of the debt issue. CSOB and the Slovaks are currently arguing the case before an international court in Washington but the Czech government last year guaranteed repayment of the debt to allow the privatisation to proceed.

Slovakia opposes linking debt repayment to the privatisation. "We are the second biggest owner and I do not like it when someone puts conditions on our rights," said Vladimir Masar, governor of the central bank.

Mr Masar also gave a veiled warning that he remained the regulator for CSOB's Slovak operations. "I believe that any owners of this stake will want correct, standard relations with us."

CSOB is believed to have begun acting as a mediator between the two nations. One solution could be for another investor, such as the European Bank for Reconstruction and Development, to buy the Slovak stake. The EBRD has held negotiations with Slovakia but it is unlikely that any deal will be reached before the Czech sale.

SLOVAK TELECOM FOREIGN PARTNER SOUGHT

Bratislava moves on privatisation

By Robert Anderson in Bratislava

Slovakia, one of the few central European countries whose telecom monopoly is still fully state-owned, will by the end of this month appoint advisers for the entry of a foreign strategic partner into Slovak Telecom.

"We would like to start the process of privatisation in the second quarter," said Frantisek Kurej, state secretary at the ministry of transport, post and telecommunications. "We would like to see the foreign operator functioning on the 1st of January 2000."

The move will be seen as an important signal that the new government supports foreign investment. The previous government of Vladimir Meciar, who stood down in October, favoured domestic entrepreneurs in privatisation deals and failed to follow through on a 1996 decision to begin the sell-off of Slovak Telecom.

The company will be transformed into a 100 per cent state-owned joint stock company by the end of this month and the ministry expects to issue a tender by the end of June. According to its timetable, which will be discussed by the cabinet later this month, preliminary offers would be made by mid October and final offers by the end of November.

The method of privatisation will be discussed with the advisers. Mr Kurej said the ministry favoured making one-third of the foreign investment through the purchase of part of the state stake and two-thirds by raising the total equity.

"The priority would be raising the capital," said Mr Kurej. "After raising the capital, the foreign investor would have at least 35 per cent and the state would keep at least 51 per cent."

It is still being debated whether part of the state stake will afterwards be floated or exchanged for privatisation bonds held by citizens.

This could help solve the headache of repaying Sk33bn (£500m) of these bonds in 2001 and stimulate the dormant Bratislava stock exchange.

Because it had to manage without a strategic partner, Slovak Telecom has relied on foreign borrowing to modernise its network ahead of the end of its monopoly at the beginning of 2003. Igor Chochol, finance director, said the company has Sk18bn in outstanding loans and will require another Sk2.2bn this year.

"We would like to have 100 per cent digitalisation and 42 per cent penetration by 2002," Mr Chochol said. "For that we need Sk30bn."

Mr Chochol said Slovak Telecom currently has 29 per cent penetration (telephones per capita) and has digitalised around 60 per cent of its exchanges. This year it expects to invest Sk9.5bn, the same as last year.

The partial privatisation is likely to attract many of the international telecom companies already active in the region.

But interest may be lower because of the short time period of monopoly status left and because several countries in the region are in the middle of their own sell-offs.

Slovak Telecom also faces tough competition from two aggressively-priced mobile phone operators.

Yeltsin steps up row with top law official

By John Thornhill in Moscow

Boris Yeltsin, Russian president, yesterday checked out of hospital and ordered the country's powerful security council to investigate any "misdemeanours" committed by Yuri Skuratov, the prosecutor general.

The move, which follows a controversial broadcast on state television on Tuesday night purportedly showing Mr Skuratov in bed with two young women, steps up the conflict with the country's top law official.

Mr Yeltsin has been enraged by a decision of the upper house of parliament, the Federation Council, to retain the official. The presidential administration claimed Mr Skuratov, who has launched a series of potentially explosive investigations in recent weeks, was compromised and was being used by Communist extremists.

The stand-off between the president and parliament threatens to grow into the biggest constitutional crisis since October 1993, when Mr Yeltsin resorted to force to dissolve the Supreme Soviet.

But Boris Nemtsov, a former minister who remains close to Mr Yeltsin, predicted the situation could still be defused. "Skuratov is a clever man and sooner or later he will realise that a weak prosecutor general undermines the unity and might of the country. He will himself quit his post," he said.

Following an unproductive meeting with Mr Yeltsin yesterday morning, Mr Skuratov's office issued a press release saying the prosecutor general would continue his investigations.

On March 23 Mr Skuratov is due to meet a top Swiss law officer about the activities of the Lugano-based Mabetex company. The Russian media has reported that Mabetex, which has won several lucrative building contracts in Moscow, is linked with the president's closest entourage.

Many influential politicians continue to support Mr Skuratov, including Yuri Luzhkov, Moscow's mayor and a leading presidential contender.

But Boris Berezovsky, a business tycoon, said the fuss around Mr Skuratov disguised a bigger political battle. "What is happening is not about whether or not Skuratov should keep his job. It is a struggle for power by the Communists by any means possible."

Indian mutual fund faces restructuring

By Krishna Guha in Bombay

India's biggest mutual fund, the $5bn state-run US-64, needs sweeping changes to restore it to health, according to a long-awaited restructuring plan to be published shortly in Delhi.

The plan is of crucial importance to India's stock markets, which slumped last September on news that US-64 had a gap of more than $1bn between its assets and liabilities.

This month shares soared after the government revealed the first stage in the rescue plan – a Rs48bn ($1.13bn) state-funded bail-out and tax breaks for mutual fund investors.

The full report says US-64 must move from its current system of assured returns to market-based net asset value pricing over a period of three years. "You cannot have a scheme which invests in equity and gives a guaranteed dividend of 20 per cent. It is absurd," said one member of the committee of top bankers and officials which drew up the plan.

It calls on Unit Trust of India (UTI), which manages US-64, to submit to full scrutiny by the stock market regulator, the Securities and Exchange Board of India. Long established schemes run by UTI, including US-64, have so far been answerable only to the Reserve Bank of India, the central bank.

The plan demands that UTI's shareholders – a group of public sector institutions – inject Rs5bn in long-term capital into the fund. At present US-64 has shareholders' capital of Rs50m supporting liabilities of about Rs200bn.

The report also explains the logic behind the structure of the first stage bail-out announced in the budget on February 27. This involves the government setting up a fund to buy US-64's portfolio of privatisation stocks at the book value of Rs48bn, compared with the market value of about Rs28bn.

The new fund will pay for the stocks by issuing Rs48bn five-year bonds with a coupon rate of 12 per cent, backed by an equivalent amount of identical government bonds.

"Only the interest outgoing will be counted against the fiscal deficit," said the committee member. "We have solved a Rs50bn problem with Rs5bn."

He said the equity-for-bonds swap would rebalance US-64's portfolio in favour of debt, and provide high yield to meet redemptions and dividend payments.

The plan envisages that the new fund will act as a warehouse for the privatisation shares. US-64 may repurchase them if their market value rises in line with the book value. The shares could then be sold for cash in the open market.

NEWS DIGEST

STRONG OPPOSITION FROM GREEN GROUPS

Canberra gives go-ahead to uranium mine

The Australian government yesterday dismissed environmental concerns about a new uranium mine in the remote outback, giving the go-ahead to the latest move to exploit the world's largest uranium reserves.

The government granted environmental approval for the Beverley mine in South Australia to a local subsidiary of the US energy group General Atomics. The decision sparked outrage from Green organisations, already fighting the decision to allow the Jabiluka uranium mine to operate next to the World Heritage listed Kakadu National Park.

The Australian Conservation Foundation vowed to fight the Beverley project by any means possible, saying the *acid leaching process to be used retained waste products* underground and threatened important groundwater supply.

Robert Hill, environment minister, said the government had been advised the local aquifer was unsuitable for drinking water or for stock or irrigation. **Reuters, Adelaide**

THAI RESTRUCTURING

Central bank names adviser

Thailand's central bank took another step towards restructuring itself yesterday when it appointed A.T. Kearney, the management consulting company, to help improve its internal operations.

Deficiencies at the Bank of Thailand, particularly relating to financial institution supervision and foreign exchange management, have been widely cited as key components in the forced devaluation of the Thai baht in 1997.
Ted Bardacke, Bangkok

TWO REACTORS

Taipei to permit N-power plant

Taiwan opposition politicians and environmental activists have raised a chorus of protest against the government's decision to issue final permits for the resource-poor island's fourth nuclear power station.

State-owned Taiwan Power said it would push ahead with installation of two reactors supplied by General Electric after the Atomic Energy Council approved the project, which was first proposed nearly 20 years ago but has been repeatedly stalled by environmental concerns. Nuclear power stations supply nearly a third of Taiwan's electricity. **Mure Dickie, Taipei**

PAKISTANI COURT

Bhutto trial ruling

Benazir Bhutto, Pakistan's opposition leader, yesterday won a significant ruling from the country's supreme court which removed at least temporarily the prospect of a conviction on corruption charges as early as next week.

On Wednesday, an anti corruption court trying her and Asif Zardari, her husband, on allegations of corruption while she was the prime minister, abruptly ended the trial and said that a conviction could be announced as early as Monday. The supreme court, however, has directed the anti-corruption court to hear the defence witnesses and defence arguments before reaching a conclusion.
Farhan Bokhari, London

JAPANESE ECONOMY

Trade surplus falls 27%

Japan's trade surplus with the world dropped nearly 27 per cent in February from the same month last year, the government announced yesterday. This is the largest decline in almost two years.

The merchandise trade surplus, *the measure of all goods* exported minus those imported, fell by 26.9 per cent to Y934.2bn ($7.92bn), the Finance Ministry said. The decline, the biggest since March 1997 when the surplus fell 28.4 per cent, was also the first drop in three months.

Japan's politically sensitive trade surplus with the US also fell, decreasing 22.7 per cent to Y414.9bn. **AP, Tokyo**

N KOREA-US INSPECTIONS DEAL JAPAN PM'S VISIT TO S KOREA OFFERS WAY TO RE-ENGAGE IN EFFORTS TO AVOID REGIONAL CRISIS

Obuchi given golden chance in Seoul

By Michiyo Nakamoto in Tokyo

The Japanese prime minister's visit to South Korea starting today has turned out to be more timely than he could have initially imagined.

Keizo Obuchi arrives in Seoul just days after a much awaited breakthrough in talks between the US and North Korea to allow inspections of a suspected nuclear weapons site. The summit meeting between Mr Obuchi and President Kim Dae-jung scheduled for tomorrow will provide Japan with a convenient and well timed opportunity to re-engage itself in international efforts to avert a possible crisis on the Korean peninsula.

Just as importantly, perhaps, a reaffirmation of mutual co-operation could help ease regional concerns over recent hints of a more assertive Japanese stance on self-defence and emerging signs of nationalism in the face of the North Korean threat.

Ever since North Korea launched a missile over Japanese territory last autumn, Japan has taken a more hardline stance than either South Korea or the US. The Japanese government has continued to refuse food aid and maintained an embargo on flights to North Korea.

This hardline stance has made Japan appear at odds with the US and South Korea in policy towards the North, raising concerns that Pyongyang could use their differences to its advantage.

More annoyingly for Japan, there are no signs that it is working. "The Japanese stance aims to send a message to North Korea, but North Korea has completely ignored it," says Teruo Komaki, senior researcher at the Institute of Developing Economies in Tokyo.

Unofficial contacts with Pyongyang have also apparently yielded little. But in spite of South Korean and US entreaties for a more conciliatory approach, public resentment over the missile launch and alleged kidnappings of Japanese citizens by North Korean agents has made it difficult to adopt a less confrontational stance.

But appearing at odds with South Korea, which has adopted a conciliatory "sunshine policy" towards the North, does little to bolster Japan's position in the regional balance or help its vulnerability.

Although relations between Japan and South Korea have improved substantially since the visit of President Kim last year, any greater trust South Korea has developed in Japan is shaky enough to be undermined by an insensitive remark from a careless politician. "Japan does not have the trust of Asian countries. This is even true with Korea," says Tadashi Kimiya, assistant professor at Tokyo University.

The Japanese government's increasingly assertive stance with regard to its self-defence options does not help either. Members of the ruling Liberal Democratic party (LDP) have stated publicly that Japan has the right to launch a pre-emptive strike against a hostile country, such as North Korea, if it fears a missile attack is imminent.

Japan's neighbours are also likely to feel ill at ease about the apparently huge popularity of Shintaro Ishihara, novelist and former LDP parliamentarian. Mr Ishihara, who is leading the polls in the Tokyo gubernatorial race, is well known for his hawkish views and lack of patience with Japan's US-dictated foreign policy.

There will be further *unhappiness at deliberations* in the Japanese Diet over new legislation that will increase Japanese military co-operation with the US and has raised questions about the constitutional constraints on the country adopting a more assertive defence policy.

South Korea understands *the importance of increased* Japanese co-operation to US forces, says Mr Kimiya. But, given the history of Japanese occupation of Korea, *there is bound to be tremendous* wariness towards any Japanese involvement on Korean territory.

Mr Obuchi's visit should help towards easing such concerns, particularly if it encourages Japan to bring its policy towards the North more in line with that of Seoul and Washington. "We must co-operate with each other to deal with issues concerning North Korea. We should not have any discord between us," Mr Obuchi emphasised *yesterday*.

S Korea sees conciliatory tactics bearing fruit

By John Burton in Seoul

North Korea's agreement to accept US inspections of a suspected underground nuclear site is seen in Seoul as a victory for the conciliatory approach favoured by Kim Dae-jung, the South Korean president.

In contrast, Tokyo suspended talks with Pyongyang about establishing diplomatic relations and halted food supplies to the starving North after a missile launch last year. It said food aid and dialogue would not be resumed until North Korea allayed concerns over missile development and the suspected nuclear facility.

If the North test-fires another missile, Japan has threatened to withdraw $1bn to help finance the building of safe nuclear reactors promised to North Korea in 1994 after Pyongyang agreed to freeze its suspected nuclear weapons programme.

Officials in Seoul fear that if Japan abandons the 1994 nuclear accord it would *encourage the North to* resume nuclear development. Pyongyang has already complained about delays in the construction of the new nuclear plants after Tokyo suspended payments last year in response to the missile launch.

Tokyo's hawkish tone has raised concerns in the South, where worries about an increased Japanese regional *defence role are a reflection* of the bitter feelings about Tokyo's brutal colonial rule of the Korean peninsula between 1910 and 1945.

Officials in Seoul are privately ambivalent about Japan's recent decision to develop a theatre missile defence (TMD) system with the US to protect north-east Asia from medium-range North Korean missiles.

"It places us in an awkward position," said a South Korean foreign ministry official. While Seoul acknowledges the need for defences against a common foe, it is also worried that TMD might be part of a build-up of Japanese military might and could escalate tensions with North Korea and China.

South Korea would not benefit from TMD since it is useless against the short-range Scud missiles that North Korea could launch against the South.

Tung weathers two hard years to keep Hong Kong on track

Peter Montagnon and Rahul Jacobs look at the buffeting the chief executive has endured and how he has coped

He has a very difficult job. Would you like it?" Such was the recent retort of Sir William Purves, former chairman of *HSBC* Holdings, to journalists asking him about the performance of Tung Chee-hwa, Hong Kong's chief executive.

Of late, Mr Tung's task has been particularly hard. He has had to cope with the territory's first serious row with China since the 1997 handover, face down a vote of no confidence in Elsie Leung, his secretary for justice, and preside over a budget that was always going to be judged for the effective*ness of its response to the* worst economic crisis in more than a generation.

These developments underline the two main challenges for his administration, he said in an interview. One is to make sure that the concept of "one country two systems" works properly; the other is to deal with the immediate economic crisis without losing sight of the need to position Hong Kong for long-term growth and prosperity.

But in responding to these challenges, he is also increasingly putting his personal stamp on the administration. Mr Tung stresses continuity in economic management, but his interest in developing sectors such as information technology and tourism point to a government more willing to steer the economy.

Managing the transition has been a tough task for a man whose roots are in business, not politics. Mr Tung is not a natural communicator. Instinctively conservative and sometimes ill at ease with the sniping local media, he *lacks the backing of a* political party that can help formulate policy and mould consensus.

Meanwhile, he is assailed on all sides. Li Ka-shing, the property tycoon, complains that Hong Kong has become too politicised. Martin Lee, the Democrat leader, fears an erosion of the rule of law. Szeto Wah, another Democrat with roots in the workers' movement...

His close direct links with mainland leaders clearly helped

...ing classes, accuses him of being more interested in helping big business and *ignoring ordinary people*.

Sometimes the chief executive has seemed to fumble in balancing these various pressures. Many in the legal profession, for example, have expressed concern at the government's role in persuading the Court of Final Appeal, supposed to be Hong Kong's highest legal authority, to clarify a ruling on immigration last month. The ruling upset China because it appeared to question the right of the National People's Congress to interpret the Basic Law, Hong Kong's constitution.

But others say that, while the dispute shows the limits of Hong Kong's legal independence, Mr Tung at least managed to limit the damage by moving quickly to *lance the problem once* China complained. His close direct links with mainland leaders clearly helped. For Mr Tung, the affair indeed shows the two sides "have struck a very good working relationship".

According to one western diplomat in Hong Kong, the chief executive has made a reality of "one country" in a way that makes the mainland more relaxed about "two systems". "This gives the administration here con*siderable leeway," he says.*

Mr Tung agrees. Yet the "one country" part comes naturally to a native of Shanghai and a patriotic Chinese. Besides, he said, China had obligations, too.

"We in Hong Kong, of course, want to preserve two systems. The best way to preserve two systems is to understand our country and understand one country. Similarly, it is important across the border for people to think a lot about two systems, how to make it work."

As for the economy, there was no avoiding the need for the territory to adjust. "Our costs were running too high and the financial turmoil actually accelerated that process of adjustment. The faster we can adjust, the earlier, the recovery can be."

Also, he stressed that any new industries in high technology would have to be market-led. Whatever critics said, there were no special favours for individual big business.

"We will not apologise for emphasising the importance of creating a good climate for business," he added. This approach is in the tradition of Hong Kong governments going back decades, who were never as *laissez-faire* as they are sometimes made out. "The success of Hong Kong is because we have constantly been able to produce a friendly environment to enable the private sector to get on with it. This has not changed, because it is important that the private sector should lead."

Then there is the question of the rule of law. The case involving the Court of Final Appeal is not the only one that has given rise to doubts. The government came under criticism for its decision not to prosecute Sally Aw, proprietor of the Hongkong Standard newspaper and a friend of Mr Tung, for corruption in a case in which three of her employees were convicted of rigging circulation figures. Mr Tung insisted that "nobody is above the law and we will rigorously enforce this," but he admitted that only time would erase doubts.

The public will be watching closely. And its demands add to pressures in all sorts of ways. "We are a very open society and therefore we must constantly listen to the aspiration of the people," said Mr Tung.

Tung Chee-hwa: 'a very difficult job' AP

Bank warns on Philippine economy

By Tony Tassell in Manila

The World Bank has sounded a cautionary note *on the outlook* for the Philippines after recent business optimism over the country's unexpected resilience during the Asian economic crisis.

In a report on the country, it warned that the economy might not have bottomed out yet and would find it difficult to achieve "even a modest recovery of 2 per cent in 1999" – a level well below government targets.

The bank also warned that the country's dependence on electronics for export growth *posed medium-term risks* and that further reforms were required to streamline the public sector, strengthen banking and corporate regulation, improve labour competitiveness and mobilise long-term savings.

The bank said the Philippines had withstood the regional crisis better than most market economies in east Asia, with the banking and corporate sectors "resisting" the systemic collapses seen elsewhere. However, the momentum of growth and optimism built up in early 1997 had been dealt a severe blow and economic growth had stalled in 1998, with real gross domestic product contracting by an estimated 0.5 per cent.

The outlook for recovery was "clouded" by uncertain prospects for private capital flows and high levels of corporate and banking stress. This could continue to restrain investment, credit demand and credit access.

While the economy in 1999 might be boosted by a pick-up in agricultural growth after a drought, the bank said export growth was slowing late last year and industrial production and imports were declining.

Its forecast that the economy would at best achieve growth of 2 per cent contrasts with government targets of 3 to 3.7 per cent growth in gross national product and 2.6 to 3.2 per cent in GDP. But it is in line with private sector economists' average forecasts of 1 to 2 per cent GDP growth.

In the medium term, the World Bank forecast that the pace of recovery would be *influenced by two factors* – the extent to which financial stress has been alleviated and the uncertain outlook for private capital flows.

It said these factors pointed to a relatively modest recovery, with growth averaging about 4 per cent during 2000-3 and current account deficits remaining below 2 per cent of GNP during this period.

"While the rate of growth is not expected to return quickly to pre-crisis levels, the crisis does provide an impetus to accelerate structural reforms that would improve both the quality and sustainability of the growth that is achieved," the World Bank said.

China offers Taiwan contact

By Mure Dickie in Taipei

China yesterday offered to send its top Taiwan affairs negotiator to the island in the autumn this year, a vague proposal that underlines the many *differences* between Beijing and Taipei but at least sets a possible rough timetable for contacts between them.

Li Yafei, deputy head of Beijing's Association for Relations Across the Taiwan Strait, said the association's head, Wang Daohan, might travel to Taipei and the southern city of Kaohsiung during his unprecedented trip to the island, which China considers a rebel province.

Taiwan officials expressed disappointment at China's failure to propose specific dates for the visit and accused Beijing of reneging *on a commitment to arrange* the trip this spring – a claim Mr Li dismissed. Mr Li and his hosts were equally at odds on the possible content of talks during Mr Wang's visit, which follows a landmark visit to the mainland by a Taiwan official, Koo Chen-fu, last October.

China wants the next round of Koo-Wang meetings to show progress toward reunification, while Taiwan *is adamant they should* focus on practical issues.

However, China's setting of a rough time for the visit – even as ill-defined as autumn, a season difficult to define in a vast nation with a plethora of climates – will force a timetable of preparations for an event of symbolic significance.

Disputes over China's missile deployments and Taiwan's possible involvement in a US-led missile defence system have threatened the tentative resumption of contacts across the Strait.

"I think Wang Daohan's visit will be smoothly accomplished… based on the separate perception and interpretation of the visit," said Andrew Yang, head of the Chinese Council of Advanced Policy Studies in Taipei.

TRIBUNAL CALL ONE LEADER IN COURT NOT ENOUGH, SAYS ANNAN

Phnom Penh takes a firm line on Khmer Rouge trial

By Ted Bardacke in Phnom Penh

The Cambodian government yesterday reiterated its oppo*sition to an international tri*bunal to try leaders of the defunct Khmer Rouge guerrilla group.

The move came despite a personal recommendation from Kofi Annan, UN secretary-general, that such a tribunal be set up. "Any trial will take place here. We told Mr Annan that. We thought he had understood our position," said a Cambodian government official.

He was referring to a meeting last week between Mr Annan and Hor Namhong, foreign minister, at which Cambodia detailed its objections to an international tribunal.

The meeting took place before Mr Annan submitted a report to the UN Security Council and General Assembly on options for prosecut*ing Khmer Rouge leaders*, who presided over the deaths of as many as 2m Cambodians in the mid-1970s.

The report advocated that the UN set up an interna*tional tribunal to try 20-30* Khmer Rouge leaders.

In a covering letter to the report, Mr Annan said: "It is my view that Khmer Rouge leaders responsible for the most serious of crimes should be brought to justice and tried before a tribunal which meets international standards of justice, fairness and due process of law."

He accepted the report's conclusion that the Cambodian court system was not capable of organising a trial that met such standards.

Cambodia is organising a trial for Ta Mok, the Khmer Rouge military leader, and the only member of the group's leadership to have been arrested. Mr Annan said the trial of a single Khmer Rouge leader "would not serve the cause of justice *and accountability*".

Mr Annan's strong stand surprised diplomats in the Cambodian capital, who were already preparing for the international trial proposal to wither away *because of a lack of co-opera*tion from the Cambodian government.

Mr Annan noted that it would be difficult to arrange *for prosecutions without* government help in detaining suspects.

"Let's see how hard the UN can push to make this happen. I don't see a lot of leverage," said an Asian diplomat.

Thomas Hammarberg, UN representative for human rights in Cambodia, arrived in the country earlier this week seeking a meeting with Hun Sen, the prime minister. He said he wanted details of a Cambodian government request for international help for a domestic trial.

Some diplomats have suggested the UN may now seek a trial in Cambodia *with a great deal of interna*tional input.

China attacks 'cold war' critics in US

By Tony Walker in Washington

China yesterday accused critics of Sino-US ties of seeking to demonise China in a sign of Beijing's deepening concern over a souring of relations ahead of a visit to the US in early April of Zhu Rongji, China's premier.

In an unusually frank briefing, a senior Chinese official in Washington said allegations of theft of nuclear secrets were "unfounded" and he charged that China's opponents, including members of Congress, possessed a "cold war mentality".

He Yafei, minister at China's diplomatic mission, sought to carry the propaganda battle to American soil in what appeared to be the opening shots in a Chinese *counter-offensive* in the US to head off damaging allegations of pilfering of weapons technology.

"Some people in the United States are not happy to see any progress in the relationship between China and the United States," Mr He said. "They still have a cold war mentality . . . they are sorry the Soviet Union is no more."

The Chinese official's remarks coincided with further steps by the administration to tighten security at its national weapons laboratories, including additional funds for heightened computer security and stricter controls on communications, including e-mail.

Bill Richardson, secretary of the department of energy, has also announced that John Deutch, former director of the Central Intelligence Agency (CIA), had been asked to review scientific exchanges between weapons facilities and foreign counterparts to ensure that security is not being compromised.

Mr He specifically rejected allegations that a Taiwan-born scientist at the Los Alamos, New Mexico, defence facility had passed secrets of W88 Trident ballistic missile warhead technology to China.

"Reports in the American media about China's theft of US nuclear (secrets) are completely unfounded and irresponsible," he said.

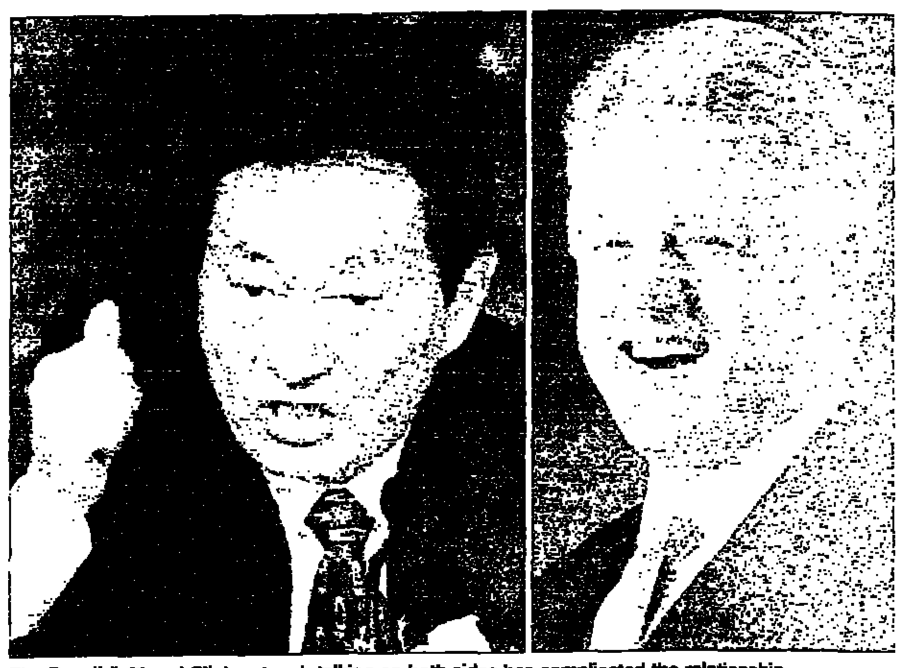
China's representative sought to emphasise the positive aspects of Mr Zhu's forthcoming visit to the US – the first by a Chinese premier in 15 years. He described the visit as "*another milestone*" in relations.

"We wish to overcome difficulties and obstacles to make this visit a success," he said. Mr Zhu is expected to spend about 10 days in the US with visits to Los Angeles, Denver, Washington, New York, Chicago and Boston.

He will hold a summit meeting with President Bill Clinton and extensive talks with other senior administration officials. US businesses have planned a series of meetings around the country.

Clinton acts to head off China 'feeding frenzy' in Washington

Zhu Rongji's visit to the US next month is putting the spotlight on policy objectives, write **Tony Walker** and **Nancy Dunne**



Zhu Rongji (left) and Clinton: tough talking on both sides has complicated the relationship

When President Bill Clinton today gives his first full news conference in months, he will use the opportunity to ratchet up efforts to limit further damage to relations with China battered by allegations over theft of nuclear secrets and reports of missile proliferation.

Administration officials responsible for China policy have argued for a more vigorous defence of "constructive engagement". The risk is that damage control efforts will prove too little too late in Washington, said by one official to be in the throes of a "feeding frenzy" of anti-China sentiment.

The arrival in the US in early April of Zhu Rongji, China's premier, is energising discussion about the need to prevent engagement with China, a key element of Mr Clinton's foreign policy, sliding into disarray.

Such has been the intensity of criticism over issues ranging from human rights *to proliferation that usual* allies of the administration, including the business community, have seemed mute.

That is set to change in the lead-up to Mr Zhu's visit, which is being eagerly anticipated by US business. Robert Kapp, president of the US-China Business Council, said the "task in hand" was to make the case that a "stable and growing economic relationship with China, characterised by further integration of China into the global economy, is in the national interests of the United States".

There have been recent stirrings within US business over the costs of a blow-up with China. Leading computer companies, including IBM and Intel, have banded together in the Computer Coalition for Responsible Exports to counter restrictions on exports to China. Computer exports have been caught up in the furore over concerns that Chinese purchases of supercomputers have a dual civilian and military purpose.

Existing US investment in China now exceeds US$20bn. China, including Hong Kong, is the US's fourth largest trading partner, and the US is China's second biggest market after Japan. But difficulties facing the administration in preparing for Mr Zhu's visit are exemplified in its efforts to bridge the gap over terms of entry to the World Trade Organisation.

Charlene Barshefsky, trade representative, appeared before a sceptical House ways and means committee this week to argue there had been progress in persuading China to open its markets in agriculture, telecommunications and financial services. But even Democrat congressmen are urging the White House to pull back on WTO, in the face of the prevailing negative atmosphere.

The US and China have been locked in intense negotiations over the WTO in the hope that an entry timetable would crown a Zhu visit, which otherwise risks being short on substance and buffeted by fallout from spying allegations.

The administration is also braced for further difficulties with China in the next week or so as it decides whether to support a resolution at the UN Human Right Commission in Geneva criticising Beijing's human rights behaviour.

Washington appears to have little choice but to support the resolution after the State Department, in its annual review of China, noted a deterioration. Such a vote would further displease Beijing and may even jeopardise Mr Zhu's visit.

All this is marks a far cry from the warmth which surrounded Mr Clinton's visit to Beijing last June, when the two sides sought to flesh out a policy of "constructive strategic engagement". That now appears at odds with the realities of the relationship.

Douglas Paul, president of the Asia Pacific Policy Centre and a former senior staffer of the National Security Council in the Reagan and Bush eras, said the administration was paying the price for "mood swings" in its China policy – from early criticism of "coddling dictators" in Beijing to the recent over-selling of engagement policy.

Mr Paul said the administration needed to bring its China policy under control or risk further damage to the relationship.

To do so, Mr Clinton and his foreign policy team face a hard sell.

NEWS DIGEST

ECUADOR PACT

Quito government builds majority alliance

Ecuador's government formed a new majority alliance in the early hours of yesterday morning, making what could be a crucial breakthrough to end the political deadlock *that has brought the country to the brink of economic collapse.*

The new alliance, consisting of seven political parties and two independent MPs, making a total of 70 seats in the 121-member Congress, has agreed to vote by early *next week on tax reforms* to cut by $520m the 1999 fiscal deficit of $1.2bn, or 6 per cent of gross domestic product.

The political pact should pave the way for an estimated $930m in loans from multilateral institutions such as the International Monetary Fund and the World Bank. The IMF warned earlier this week that it could not sign a loan agreement with Ecuador until it had an economic plan which enjoyed broad-based support.

The political breakthrough came after a third day of violent clashes between protesters and security forces in cities across the small Andean nation of 12m people, as a national transport strike continued to paralyse the country.

The protests had been sparked by an austerity package proposed by the government last week which included a rise of more than 100 per cent in fuel prices. Jamil Mahuad, president, yesterday partially revoked the fuel price rise. **Justine Newsome, Quito**

US TRADE

Deficit hits record $17bn

The US trade deficit hit a *record* $17bn in January, exceeding economists' expectations and forcing down *many estimates* of first quarter gross domestic product. The figure comes amid growing protectionist pressures in Congress but analysts, who had predicted a figure nearer $14.8bn, said the 21 per cent rise on December's deficit of $14.1bn reflected economic fundamentals rather than trade practices.

The Commerce Department said the largest bilateral trade deficit was with China – up to $4.88bn from $3.98bn in December. Chinese steel imports rose 65 per cent. William Daley, commerce secretary, is to raise the issue of steel imports, the subject of quotas passed by the House on Wednesday, with China on a *trade mission this month* before Beijing's bid to join the World Trade Organisation. The move follows the threat of anti-dumping duties to curb steel imports from Japan, Russia and Brazil.

The surplus with Latin America shrunk by nearly $1bn. *The trade gap narrowed* against Japan and Europe but widened against Canada and the rest of Asia. The goods deficit rose $2.9bn to $23.4bn while the service surplus was unchanged at $6.4bn. **Gautam Malkani, Washington**

MEXICAN FUNDING

Gurría hopes for $1bn bond

Mexico is hoping to issue a $1bn international *bond in the* near future, José Angel Gurría, Mexico's finance minister, said yesterday.

The offering, which would fulfil the remainder of Mexico's 1999 external funding requirements, could be priced to yield as little as 350-375 basis points over US Treasury bonds, said Mr Gurría. This would approach the low cost of funding Mexico was able to achieve before the onset of the Asian financial crisis in 1997.

Bankers said that Mexico might be hard pushed to tap the markets at such low rates. "There's a feeling that emerging markets in general and Mexico in particular are turning the corner so a lot of banks are bidding very aggressively for deals," said one. **Edward Luce, London**

Asian crisis **is over, Page 23**

On the web today

● Argentinian activists revive plan to get Menem third shot at presidency ● *Alberta throws down a challenge* on taxation ● Business chiefs make a plea to Chávez

http://www.ft.com/americas

Israel locked in growing battle to shape the future identity of the state

The clash over the rule of law is worsening as society splits, writes **Judy Dempsey**

When a senior Israeli diplomat was asked about the resignation of the European Commission this week, he seemed perplexed. "It was strange how they all resigned. Europe should take a leaf out of our book. Nobody resigns here."

Two days later, Aryeh Deri, leader of Israel's powerful ultra-Orthodox Shas party and Knesset (parliament) deputy, was convicted of bribe-taking, fraud and breach of public trust.

But instead of resigning, Mr Deri said the verdict by the district court judges was wrong. He would appeal to the Supreme Court and he would continue in office.

He was backed by Eli Suissa, interior minister in Benjamin Netanyahu's coalition government. Mr Suissa also said the judges were wrong, since he knew Mr Deri better than they did.

The Deri case, regardless of the evidence, will be used by Shas supporters (Sephardic Jews from north Africa and the Middle East) to claim discrimination by what they believe are courts dominated by secular, European Ashkenazi Jews, even though the ethnic and religious composition of the courts is changing.

However, the case transcends the ethnic (Jewish) divisions in Israel.

What it represents, said Mordechai Kremnitzer, law professor at the Hebrew University, is the growing battle within society to shape the future identity of the state.

"There is a very significant section of Israeli society that is antagonistic towards the courts as we tackle the issue of reconciling democracy with Judaism. At issue is the rule of law."

The battle over the rule of law has intensified as Israeli society rapidly fragments. Nearly 1m new Russian immigrants want to influence the political agenda.

The ultra-Orthodox religious parties, numerically much stronger, are wooed by prime ministers to form governments. In return, they seek to win financial concessions to boost their religious communities and strengthen religious observance at the expense of civil society.

Such fragmentation has been abetted by the disintegration of the old elites.

From the founding of the state in 1948 until the 1970s, the secular, Zionist left-wing Ashkenazim elites spanned the arts and media, courts, army and academia.

Grouped around Mapai, the precursor to the Labour party, they controlled key state institutions.

Through these, they administered the fledgling state along highly centralised, censored, socialist lines, while disbursing favours. In the process, they paid lip service to public accountability.

"Then, the *raison d'être* was state building – a kind of *raison d'état*," said Michael Partem, deputy chairman of the independent Movement for Quality Government. Such a state-building process excluded the Sephardim, until the late Menachem Begin formed Likud and won the 1977 elections.

Yet as Israeli society fragments, the emerging elites, instead of increasing public accountability and strengthening the courts, are using their new power to settle old scores and set their own agenda.

In this respect, said Mr Partem, "the courts are becoming the lightning rod," especially since Aharon Barak, chief justice, supports judicial review, giving the citizen the right to challenge government actions through the supreme court.

But if Shas ever gains power, as Mr Deri explained in a recent interview, he would institute the rule of *Halacha*, or Jewish law, which would impose strict regulations on public life, including dress, entertainment, education and the judiciary.

The secular, Ashkenazi courts, he claimed, were against religious Jews.

But the attacks on the courts are not confined to the ultra-Orthodox. A section of the new secular Russian group of immigrants, headed by Avigdor Lieberman, Mr Netanyahu's former cabinet secretary, has a different agenda.

"This is the war of democracy against the oligarchy," said Mr Lieberman, when he recently launched his new political party. "This is the war of the majority – new immigrants, development towns, settlers and *Haredim* (ultra-Orthodox Jews) – against the elites. "I have not one iota of faith in the justice system and law enforcement in Israel."

Judges are not prepared to dismiss such statements as rhetoric. Those involved in high-profile cases, such as Mr Deri's, have received death threats. Many require police protection. Increasingly, the judiciary cannot depend on the government to defend it.

Tzahi Hanegbi, justice minister, for example, dismissed last week's report by the state comptroller which cleared Ehud Barak, labour party leader, of reneging on his responsibilities when soldiers under his command were accidentally killed in a training exercise. Mr Netanyahu did not rebuke his minister. "We are on a *collision* course," said Mr Kremnitzer. "There are blatant denials of the authority of the law and the courts by a significant section of society. It is really very dangerous for our democracy."

Editorial comment, Page 21

Afghan ban for UK and US aid workers

By Michael Littlejohns, at the United Nations, in New York

Britain and the US have told the United Nations to exclude their citizens from UN staff beginning to return to Afghanistan, because they take seriously implicit threats to their safety by Osama bin Laden, the alleged terrorist leader who may still be in that country after the Taliban reported him missing.

Officials in New York last night confirmed that Kofi Annan, UN secretary-general, agreed that Britons and Americans should not go back pending a review by Benon Sevan, his security co-ordinator. Also for safety reasons, nationals of the two countries are excluded from UN aid operations in Iraq.

Fears for their safety in Afghanistan were heightened by remarks attributed to Mr bin Laden in a magazine article that any person whose taxes helped to pay for "the American war machine against the Moslem nation" was a legitimate target.

Sergio de Mello, head of UN humanitarian operations, authorised the return of aid staff to Afghanistan under an agreement with the Taliban, which controls most of the country.

He disclosed that in negotiations he repeatedly raised the "bin Laden problem" and was assured the alleged terrorist leader was not above the law. Furthermore, his followers "would not be allowed to put lives of international staff at danger".

Officials said neither Washington nor London accepted those assurances and responded by intervening with the UN on behalf of their citizens. Their action was said to have created friction with other nationals, because governments are supposed not to interfere in UN staffing matters.

However, Fred Eckhard, UN spokesman, said last night: "This is not a constitutional issue; it is a security issue." He called the exclusion of the Britons and Americans a provisional measure.

Mr Annan ordered a pull-out of UN staff from Afghanistan, for security reasons, last August after the US launched missiles at camps in the southern part of the country suspected as training bases for Mr bin Laden's followers.

The raids were a response to the bombing of American embassies in Kenya and Tanzania, with the loss of 250 lives, which Mr bin Laden is believed to have masterminded.

An Italian colonel employed by the UN and three aid workers were murdered in Kabul in the same month, a further reason for Mr Annan's action.

IOC backs reform of bids process

By Patrick Harverson in Lausanne

The International Olympic Committee yesterday approved radical reforms to the bidding process for the 2006 winter Olympic Games that strip its 108 members of most of their powers to evaluate candidates and choose the host city.

At the special two-day session in Lausanne called in the wake of the Salt Lake City scandal, the IOC approved a complete ban on visits to bidding cities by its members and backed the executive board's proposal to hand over the bulk of the responsibility for assessing the bids to two internal groups.

The ban on visits was criticised by most of the cities bidding for the 2006 Games. A representative of the candidacy from Turin said: "If they had told us one year ago, we would have thought twice about bidding".

Apart from Turin, the other bidders are: Sion (Switzerland); Helsinki; Zakopane (Poland); Poprad-Tatry (Slovakia), and Klagenfurt (Austria). Before the host of the 2006 Games is chosen this summer, a committee will publish a report on the six competing bids, after visiting candidate cities.

A newly instituted selection college made up of 15 individuals and the IOC president will then whittle the number of bids to a short-list of two candidates at the annual congress in Seoul in June, before the final decision on the host city is made by the organisation's 108 members.

The new procedure is intended to eliminate the possibility of bribery in the selection process.

The discovery that some IOC members had received thousands of dollars in cash, gifts and free trips sparked the current crisis in the Olympic movement and prompted the IOC to initiate the reforms.

The changes approved yesterday are only interim measures. A new committee, called IOC 2000, will be set up to draw up permanent changes to the bidding process, as well as reforms to the organisation's structure.

The IOC has also decided to set up an ethics commission to oversee its activities. Both bodies will include prominent individuals from outside the Olympic movement, the first time independent figures have been asked to play a significant role in the management of the IOC.

Under its new policy of transparency, the IOC disclosed yesterday details of its finances and payments to executive officials and members.

They showed that in 1997-98, the financial year covering the winter Games in Nagano, Japan, the IOC ended with a surplus of $39.8m on revenues of $85.7m.

The figures also showed the IOC has $136m of reserve funds, and another SFr95m ($65m) operating funds in its separate Olympic Foundation account which covers the running of the Olympic Museum.

The IOC's director of finance also revealed that the cost of putting up Juan Samaranch, IOC president, in his permanent hotel suite in Lausanne totalled $204,000 last year.

Special payments to the executive board for attending IOC meetings had doubled at the end of 1998 from $500 to $1,000 per board member. These payments exclude board members' travel, accommodation and living costs, which are met by the IOC.

Congo economy plunges to new and deeper depths

The government is stuck in the mindset of the interventionist 1960s, writes **Michela Wrong**

Basket economy: A woman selling peanuts in a Kinshasa market Panos

For many Congolese, the statement by Orgaman marked the moment when the alarm bells really started to ring.

For decades, the company had been a mainstay of Kinshasa's economy, importing the capital's fish and meat in the face of army rampages, rebel attacks and civil unrest. Now Orgaman was warning that it would have to suspend core activities because it had become "nearly impossible" to find the foreign exchange needed to buy goods abroad. "If Orgaman cannot import, then it really is the end," said a veteran politician. "What are Kinshasa's 5m people going to eat?"

Orgaman's declaration was a measure of the severity of the crisis that has hit the Democratic Republic of Congo. As the rebel uprising launched last July with Rwanda and Uganda's backing simmers on, the economy is touching depths unknown even during the late President Mobutu Sese Seko's chaotic reign.

Congo's key industries – copper and cobalt mining and diamond extraction – are in vertiginous decline. Once-excited foreign investors are steering clear. Small and medium-sized enterprises are laying off staff. Even the huge, informal economy is crippled, paralysed by fuel rationing, which leaves literally thousands of residents standing by the roadside every morning and evening, waiting for taxi-buses that never come.

At the heart of the crisis lie measures that were intended to show strong government on the part of the rebel movement that seized control of the country in May 1997, but have instead exposed a naive cabinet's shaky understanding of an idiosyncratic economy.

Aiming to shore up the new Congolese franc and control inflation, the government in January outlawed local transactions in US dollars and cracked down on foreign exchange bureaux, keeping the official exchange rate artificially high.

In some African economies, the impact would have been limited. But during the Mobutu years, foreign exchange was the only safeguard against hyperinflation and dollars were estimated to account for more than 60 per cent of the monetary mass. With this declared off limits, basic commerce is grinding to a halt.

With exports already hit by the war, importers like Orgaman are struggling to locate the foreign exchange they need to keep operating. The petrol companies face the additional problem of a government unable to repay its debts. With pump prices fixed by the state at barely profitable levels, they are keeping stocks low and rationing distribution.

Pragmatic considerations certainly lie behind the policies: President Laurent Kabila needs foreign exchange to buy arms and pay Angola, Zimbabwe and the other African allies whose military intervention saved him from defeat by the rebels last year and who still have troops stationed in strategic Congolese towns.

But the demands of war are not the only explanation. Mr Kabila and his aides trace their lineage back to Patrice Lumumba, Congo's post-independence hero. Philosophically, say their critics, they remain stuck in the interventionist 1960s, when socialist administrations were loath to let the market run free.

"The incompetence is just incredible," says a western analyst. "They have not managed the transition from rebel movement to government at all. And despite making mistake after mistake, they're too paranoid to take advice from outside."

One casualty has been the diamond trade, where the dollar ban has accompanied legislation expelling foreign nationals from mining areas, effectively removing many of the middlemen who provided artisanal diggers with their link to the international market.

Exacerbating the crisis is the government's determination to channel all trade through a new diamond "stock exchange" in Kinshasa, whose operating rules and *raison d'être* remain worryingly unclear.

In the central diamond town of Mbuji Mayi, diggers are now either sitting on their stocks or sending stones into neighbouring Angola rather than be paid in non-convertable francs. Affecting a town renowned for its independent streak and believed to be high on the rebels' list of targets, the measures seem extraordinarily ill-timed.

With tax revenues less than half what they were before the war, the government's cash-raising techniques smack of desperation.

Manoeuvres such as founding a political party, registering a church or opening a streetside hair-cutting booth all now come with suspiciously hefty price tags. High-profile companies are fined for supposed "economic crimes" committed under Mobutu. The stocks of Kinshasa's timber exporters were recently seized by the government, apparently intent on selling the precious wood abroad in violation of international law.

Hard on the heels of the controversial signing of a joint-venture giving the Zimbabwean company Ridgepointe 80 per cent of state copper company Gecamines' assets, come the sales of minority stakes in a bevy of multinationals. "The majority shareholders are delighted," says a banker. "But the state can only do this once. Then what?"

In private, Kinshasa's businessmen despair. But in an increasingly repressive political climate, in which chief executives have joined journalists and opposition politicians as targets for routine arrest, open dissent is no longer an option.

"There is no difference between the central bank under Mobutu and under Kabila," says an insider. "Money was taken out in defiance of the rules then and the same happens now. Refusing Kabila anything has become impossible since the war."

Anywhere else, a burgeoning crisis of such magnitude would trigger revolt, bringing about what the rebels failed to accomplish. But most analysts agree that the Congolese are too inured to deprivation to produce the explosion of fury that overturns a regime.

Health research 'neglects poor'

By Frances Williams in Geneva

Less than 10 per cent of the $56bn a year spent globally on medical research is aimed at the health problems affecting 90 per cent of the world's population, according to the first annual report of the Global Forum for Health Research*.

The Geneva-based forum, created in 1997 to try to narrow the research gap, links international bodies such as the World Health Organisation and the World Bank with governments, researchers and private sector companies.

Pneumonia, diarrhoea, tuberculosis and malaria account for more than 20 per cent of the disease burden of the world but receive less than 1 per cent of the funds devoted to health research, the report says.

While the direct and indirect costs of malaria in Africa exceed $2bn a year, the disease could be controlled for one-tenth of that amount. Moreover, because of poor commercial prospects pharmaceuticals companies have largely withdrawn from research and development of anti-malaria drugs.

The forum argues in the report that priorities in health research should be shifted towards those areas which create the highest burden of disease and for which limited funds are currently available.

In terms of Disability Adjusted Life Years (Dalys), a comparative indicator that takes into account premature death and years of disability, the highest burden of disease now comes from respiratory infections, diarrhoeal diseases and perinatal conditions. However, by 2020 the main causes of death and disability will be heart disease, depression and road traffic accidents.

Warning that global health problems are too big to be tackled by one institution alone, the forum has promoted research partnerships in areas varying from tuberculosis to family violence.

Gro Harlem Brundtland, WHO director-general, has also adopted the partnership model for the push she is making on malaria and tobacco. Both these initiatives have drawn in pharmaceuticals companies as well as other funding agencies willing to sponsor research.

* *The 10/90 Report on Health Research 1999. Available from Global Forum for Health Research, c/o WHO, CH-1211 Geneva 27, fax +41 22 791 4394, e-mail info@globalforumhealth.org.*

SELF-REGULATORY REGIMES US GROUPS CREATE WEB SITES DISPLAYING SEALS OF APPROVAL IF EU RULES ARE SATISFIED

Progress made in online data privacy talks

By Louise Kehoe in San Francisco and Nancy Dunne in Washington

US and EU negotiators say they have made "substantial progress" in this week's talks in Washington to head off another debilitating trans-Atlantic trade dispute, in this case over online data privacy.

With the US poised to impose duties on EU goods in retaliation for its banana import regime and with another row looming over hormone-treated beef, the two sides are working hard to make US self-regulatory regimes acceptable under the EU privacy directive.

The two sides will meet again in April with the hope of reaching a deal for the next US-EU summit in June.

In an effort to meet EU requirements, companies and US private sector groups are creating web sites which display seals of approval if their consumer data protection satisfies EU rules. The most rigorous programme was launched this week by Council of Better Business Bureaus (BBB), a US private sector organisation that certifies the ethical standards of its members and mediates in disputes between consumers and businesses.

The "BBB online privacy seal" and a companion programme aimed at web sites designed to attract children examine every aspect of how internet merchants collect, store and protect consumers' personal data. The scheme goes beyond earlier efforts encouraging online businesses to disclose privacy policies and, in some cases, monitoring compliance.

Companies applying for the BBB seal must complete 140 questions covering issues as wide ranging as employee training on data privacy, computer security measures and third party access to data by business partners such as shipping companies or advertising agencies.

Some 350 online merchants have already begun the application process. One of the first companies to be granted the BBB privacy seal is expected to be Dell Computer, the leading online seller of personal computers.

As well as satisfying the BBB's criteria for approval, online businesses must submit to monitoring and review of their business practices and agree to co-operate with dispute resolution procedures. In a move that could go a long way toward satisfying EU demands, the BBB programme also includes enforcement mechanisms.

Russell Bodoff, chief operating officer of the BBB's new Online subsidiary, said the organisation would publish the names of companies that failed to live up to their promises and refer these cases to US authorities.

Editorial Comment, Page 21

The big place of the banana in a small part of the world

Canute James and **James Wilson** on what lies at heart of the trade dispute between the US and EU over the Caribbean fruit

Growing bananas in the Caribbean is mostly an uphill battle. It is more than just the steep terrain. The islands themselves are small, and so are the farms. The soil is poor, and then, of course, there are the hurricanes.

The contrast with growing bananas on the large, flat, fertile plantations of Latin America could not be greater.

And that is what lies at the heart of the trade dispute between the US, whose companies own many of those Latin American plantations, and the European Union, some of whose member countries once ruled the Caribbean.

Defenders of the EU's banana trade regime, which gives preferential treatment to the Caribbean, say the region's fruit producers cannot compete unaided against the more price-competitive Latin American fruit.

Production costs in the Windward Islands of the eastern Caribbean – Dominica, Grenada, St Lucia and St Vincent, which are the region's main producers – are about three times that of Latin American producers, says the Caribbean Banana Exporters' Association.

Wages are higher in the Caribbean and it is more expensive to ship bananas from the Caribbean than from Latin America, says the association, "because of the number of port calls necessary and the absence of economies of scale".

Earnings from bananas are the only source of income for entire communities in the Windward Islands, where there are an estimated 27,000 farms under five acres. The Windward Islands depend on bananas for about 60 per cent of their export earnings, and the industry is important to the stability of the East Caribbean dollar, the strongest currency in the region.

Although other regional producers are less dependent on banana exports, the industry is also socially and economically important. Bananas account for one in every 10 jobs in Belize, and four of every 10 in the economically depressed southern region where farms are concentrated.

Yet in the international market the Caribbean is a marginal producer. In 1997 the five South American producers – Ecuador, Costa Rica, Colombia, Honduras and Guatemala – exported more than 9.3m tons of bananas, compared with 295,000 from Caribbean exporters. And in recent years even sustaining that marginal position in the market has been difficult.

Output from the Windward Islands has fallen by half since 1991, largely as a result of a drought and poor prices which have discouraged farmers. Under the EU import regime, the islands have a quota of 180,000 tonnes a year, but they struggled to export 84,390 tonnes in 1997. Production in St Lucia, the region's biggest producer, fell last year by about 7 per cent, according to the Caribbean Development Bank. Belize's production contracted by 3.4 per cent, while Jamaica's was down 21 per cent.

Latin American producers are far from united in their approach to the dispute. The complaint brought against the EU at the World Trade Organisation was filed by the US jointly with Mexico, Ecuador, Guatemala and Honduras. Panama subsequently filed its own complaint after joining the WTO.

But Costa Rica, the world's second biggest exporter with $600m of exports in 1998, has stayed on the sidelines, not unhappy with current arrangements that give its fruit a good share of the European market. Costa Rica – along with Nicaragua, Colombia and Venezuela – opted to join a framework agreement when the EU regime was introduced in 1993, giving a guaranteed share of the quota for Latin American fruit. Costa Rica was handed 23.4 per cent of the Latin American quota. So it has had little incentive to rock the boat.

Jorge Sauma, the head of Corbana, Costa Rica's banana promotion board, says: "Costa Rica has had a very constant position. We have always been for a free market. But that did not exist. So for us it was better to have a quota than not have one."

Its current framework quota – which was raised to 25.61 per cent from January – also provides a reassuring support, given high wage and social costs that Mr Sauma says are double the Latin American average.

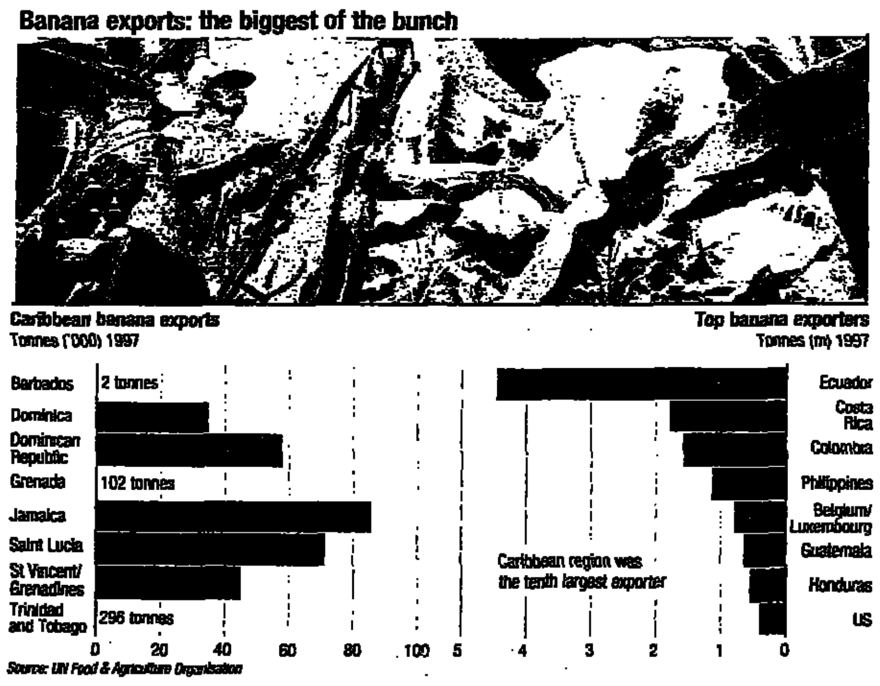
Panama's exports to the EU slumped 40 per cent between 1992 and 1997 and it would like the EU market opened. Chiquita, the big US company, is by far the dominant producer in Panama, shipping more than 80 per cent of its exports.

Chiquita is also the driving force in Honduras where it exports around half of the country's bananas. Industry sources say about half of Chiquita's Honduran exports go to Europe.

Dole, the other big producer in Honduras, has always sent the bulk of its fruit to the US and has therefore been only barely affected by the EU regime. Many Central American countries have higher labour costs than other Latin American producers. But yields per hectare are good and the countries are relatively close to the US market.

Additional reporting by Justine Newsome and Paul Solman

Banana exports: the biggest of the bunch



Source: UN Food & Agriculture Organisation

NEWS DIGEST

FOUR COUNTRIES FACE THREAT

European steelmakers file anti-dumping complaint

The European Confederation of Iron and Steel Industries, Eurofer, said yesterday it had filed a formal anti-dumping complaint about imports of unalloyed steel from China, India, Romania and Macedonia. The complaint could lead the Commission, the European executive branch, to impose anti-dumping duties on these imports.

The complaint covers imports of heavy plates of unalloyed steel, a flat steel product used in shipbuilding and construction. Eurofer said such imports from the four countries had risen sharply since 1996. "This rise was only possible by dumped prices which were undercutting European prices by up to 41 per cent," Eurofer said. "As a result of these dumped imports, prices on European markets have fallen substantially." The Commission has 45 days to decide whether a formal anti-dumping inquiry is warranted. It would then have up to nine months to complete an inquiry. **AP-DJ, Brussels**

Steel companies' results, Page 24

GLOBAL TRADE ROUND

Brittan favours all-in talks

Sir Leon Brittan, the European Union's caretaker trade commissioner, said yesterday the EU was prepared to put all its tariffs on the table for negotiation in the next round of global trade talks, due to be launched in December.

"We will not simply put forward a series of carefully selected tariff sectors where we would be prepared to make changes," he said, in a criticism clearly directed at the US. Sir Leon was speaking at a trade and development symposium of the World Trade Organisation in Geneva. Stressing the EU's readiness to see the concerns of poorer nations addressed, Sir Leon said comprehensive negotiations were the only way to remedy what many developing countries nations believed was the unbalanced result of the previous Uruguay Round. Renato Ruggiero, head of the WTO, said trade liberalisation should be coupled with initiatives for the very poorest countries to prevent their marginalisation in the world economy, including duty-free access for their exports, help in developing trade and debt relief. **Frances Williams, Geneva**

INTERNATIONAL TREATY

Ship arrest rules adopted

A new international treaty on the arrest of ships has been adopted by nearly 100 governments at a meeting in Geneva organised by the International Maritime Organisation and the United Nations Conference on Trade and Development. The pact sets out conditions under which ships can be arrested as security for maritime claims, while specifying legal safeguards to prevent unjustified action. A revision of the existing 1952 convention was needed to take account of new international rules on maritime liens and mortgages, as well as other changes.

The latest convention lists the claims for which ships can be arrested, sets out the conditions in which a ship may be rearrested or another ship arrested for the same claim and, unlike its predecessor, grants jurisdiction to the courts of the country where the arrest was made.
Frances Williams, Geneva

NORTHERN IRELAND CLINTON, BLAIR AND AHERN CALL ON ALL PARTIES TO SHOW 'MORE COURAGE' TO BREAK DEADLOCK

No arms breakthrough, says Irish PM

FT Reporters in Washington, Dublin and London

Bertie Ahern, prime minister of the Republic of Ireland, said yesterday there was no breakthrough in sight in the dispute about paramilitary weapons despite talks in Washington among republicans and their unionist rivals.

Mr Ahern, with Tony Blair and President Bill Clinton issued a joint statement last night calling on Northern Ireland parties to show "more courage" to break the deadlock. After two days of intense diplomacy, neither side appeared willing to give ground. After meeting with David Trimble, the Ulster Unionist leader and the region's first minister, Gerry Adams, president of Sinn Féin, political wing of the Irish Republican Army, indicated unionists had hardened their position in seeking what he called "a large event" from the IRA.

Mr Adams said: "David Trimble made it very, very clear what he wants from the IRA, what he describes as an event. He wants it to encompass a range of armaments through to weaponry and detonators, timing devices and explosives." Mr Trimble's demands, he said, "means our voters, his voters and the voters for all the other parties are now dependent on an organisation – over which I have no influence – doing something which is not part of the Good Friday agreement."

However, Mr Trimble was more positive, describing the meeting as "a good talk". He said: "I was glad to see that Adams this time was seriously thinking about the issue of decommissioning rather than just repeating his old script. I feel quite optimistic that, in the end, we will overcome this difficulty because there really is no alternative."

Mr Adams urged Mr Trimble to visit the Roman Catholic community in the Upper Bann parliamentary district in the wake of the murder there on Monday of Rosemary Nelson, a local lawyer. Mr Trimble is MP for Upper Bann.

"It would be going a very long way indeed to building confidence, which has been considerably eroded. As first minister, he is not just the leader of the unionist party," Mr Adams said.

Thousands attended Mrs Nelson's funeral yesterday, where her parish priest echoed Sinn Féin's demands for an independent inquiry into her death, to answer her own claims that she had faced death threats from the Royal Ulster Constabulary, the Northern Ireland police force.

A senior RUC officer said: "The investigation is already under way and there will always be a considerable RUC input. We also retain jurisdiction over policing in Northern Ireland."

The police were last night bracing themselves for further trouble after a night of riots in the nationalist areas of Portadown, where members of the Protestant Orange Order are protesting against the ban on their march through a local Roman Catholic housing estate.

'Loyalist' paramilitaries appear divided against themselves

A former member of an anti-republican terrorist group may have been murdered by a rival faction, writes **John Murray Brown**

Mary McAleese, president of the Republic of Ireland (centre) and David Andrews, foreign affairs minister (right), talk to Paul Nelson (left) after the funeral in Northern Ireland yesterday of his wife Rosemary, whose car was blown up by a bomb on Monday PA

Their names are often indistinguishable. Their memberships frequently overlap. As for their motives, they often seem to have less to do with Northern Ireland's political dispute than racketeering and drug dealing.

Anti-republican "loyalist" paramilitary groups appear in increasing disarray, and the tension deepened this week with the murder of Frankie Curry, shot dead in a street off the Shankill Road in Protestant west Belfast.

The explanation for his death probably owes much to rivalry between loyalist factions. Security officials say heavy involvement in organised crime is one reason why the loyalist paramilitaries are so adamant – even more so than the IRA – that there will not be any decommissioning of their arms.

But Mr Curry's killing also reflects a breakdown in discipline, and the political disillusion that has set in with the failure of the main political parties to implement the 1998 peace agreement. David Ervine, chief negotiator for the Progressive Unionist party, the political wing of the banned Ulster Volunteer Force, yesterday said: "We have a responsibility to implement the agreement. I think we are failing in that, and it is showing."

He is often described as the most articulate of the new breed of fringe politician in the Protestant camp, but unlike Gerry Adams, on the republican side, he has never had total control over his own hardliners.

Mr Curry was a former member of the Red Hand Commandos – a small loyalist terror group not to be confused with the Red Hand Defenders who claimed responsibility for this week's car bomb murder of Rosemary Nelson, the nationalist lawyer.

He had recently been linked with dissidents opposed to the 1998 peace agreement. Indeed, there has been speculation he was a leader of the Red Hand Defenders, who have claimed responsibility for a number of badly executed pipe bomb attacks on Catholic homes as well as the Nelson murder.

Mr Curry's exact affiliations remain unclear. The Red Hand Defenders put out a statement denying Mr Curry was one of its members, but at the same time threatened "military action" against named members of the UVF whom it blamed for his killing.

Gusty Spence, a former UVF commander and an uncle of Mr Curry, said he had received assurances that neither the UVF nor the Red Hand Commandos were involved.

However, John White, a spokesman for the Ulster Democratic party, which is linked with the banned Ulster Defence Association, said: "A lot of people are very angry about his killing. This was a man who committed his whole life to loyalism and the loyalist cause, and he has been killed by his own kind."

Internecine feuds have long been a part of the loyalist paramilitary story, but there was concern among security officials yesterday that the recent unrest could trigger a wider bloodletting among loyalist groups.

It was all so different back in 1994 when the UVF, UDA and Red Hand Commandos shared a platform to announce a ceasefire – in response to the IRA's earlier cessation. But loyalism did not speak with one voice for long.

The decision of the UDA and UVF, which would recruit from much the same working class Protestant estates of Belfast and other towns, to maintain separate political identities has not been without its costs.

In the elections for the new power-sharing assembly last June, the Progressive Unionists secured just two seats while the Ulster Democratic party won none. Unlike the IRA, which through Sinn Féin, secured 18 seats, the result was a reminder that politicians associated with violence have still to win over the Protestant community.

With even the breakaway Loyalist Volunteer Force on ceasefire to enable its prisoners to benefit from the agreement's early release scheme – the Red Hand Defenders have emerged as the "flag of convenience" for those actively opposed to the 1998 peace agreement.

The group's name recalls a mythical Ulster chieftain who, in a race across the sea, cut off his hand, and threw it to shore to claim the land.

Security officials believe the UDA is also feeling the chill because of its lack of a voice in the assembly. This week's solitary consolation for the police was that the Curry murder did not have a republican involvement.

Restaurants are told to identify modified foods

By John Willman and George Parker

Owners of pubs, cafes and restaurants face fines of up to £5,000 ($8,050) from September if they sell food containing genetically modified ingredients without proper labelling.

The new rules, which will be enforced by municipal authorities, were announced yesterday by Jeff Rooker, food safety minister, who said the UK was the first European Union country to offer consumers who ate out the information to choose whether or not to eat GM foods.

Under the regulations, food outlets which cannot accurately label individual items that contain GM ingredients must have a statement on menus, blackboards or tickets which says staff can give the information. The owners will have to train staff to provide the information and ensure that they know which foods contain GM soya or maize.

The catering industry said the new rules would be unenforceable and would put an unacceptable burden on food outlets. "Pubs will do their best to give consumers accurate information," the Brewers & Licensed Retailers Association said. "But it could be a nightmare for the smaller business."

And Michael Gottlieb, president of the Restaurant Association and owner of Smollensky's restaurants, said most of the suppliers did not know whether their products contained GM ingredients: "Either it's safe and it doesn't need a warning or it's unsafe and should be banned."

But Mr Rooker said the government was determined to give consumers a choice – and to cover food eaten out of the home as well as that bought in supermarkets. He expected other EU countries to follow suit.

The new duties of caterers appeared in regulations to enforce EU rules on labelling GM foodstuffs. Mr Rooker said he expected the EU to agree details needed to implement the new rules within the next two months.

Manufacturers protest over energy tax plans

By Kevin Brown, Industry Editor

Manufacturers have protested to the government over proposals in the Budget programme announced 10 days ago for a tax on energy use to help meet Britain's international obligations on climate control.

Ministers are being deluged with complaints that the proposed tax, on which the government is consulting, would amount to a cross-subsidy from hard-pressed manufacturers to the buoyant services sector.

Graham Mackenzie, director general of the Engineering Employers Federation, said yesterday that a proposed tax would damage the international competitiveness of big engineering companies. Mr Mackenzie called for the impact to be spread.

Intensive energy users are also increasingly worried about the scale of the proposed tax. This remains unclear because the Treasury has not published details of proposals for a lower rate for intensive users.

However, a consultation paper published on the internet by the Customs and Excise suggest that coal and gas prices would need to rise by the equivalent of 0.21p per kilowatt hour, and electricity by 0.6p per Kwh to raise the £1.75bn ($2.81bn) specified by Gordon Brown, the chancellor of the exchequer, in the Budget papers.

Lisa Waters, economic adviser to the Energy Intensive Users Group, which represents companies such as ICI and BOC, said this would amount to an increase of about 20 per cent in electricity prices and 50 per cent in the cost of gas.

British Steel has put an alternative proposal to ministers under which the government would drop the tax in return for a voluntary commitment to meet emission targets.

Other groups have said that the chancellor's plan to make the fiscal impact neutral by cutting employers' National Insurance contributions would give little help to manufacturing.

NEWS DIGEST

JEWISH NATIONAL FUND

British charity to break links with Israeli body

A leading British Jewish charity is breaking ties with with the Keren Kayemeth Leisrael-Jewish National Fund (KKL), Israel's most prominent fundraising organisation. JNF UK, the country's third-largest Jewish charity which raised $8m last year, has donated to Israel through KKL for 90 years. Jerusalem-based KKL owns 17 per cent of Israel's land and has more than 30 overseas offices.

The dispute marks the first time an overseas fundraiser for KKL has divorced itself from the head organisation, and coincides with growing tensions between Israel and diaspora Jewry over religious issues. JNF UK yesterday accused KKL of trying to take it over during a year-long power struggle. "They were trying to turn us into a British chapter of KKL," said Gail Seal, JNF UK president. "If we accepted this, we would be in danger of losing our charitable status in the UK."

In Israel, Shlomo Gravetz, KKL chairman, yesterday rejected the charges, and accused JNF UK of "political manipulation" aimed at consolidating control of funds in the UK office. **Avi Machlis, Jerusalem**

NEW VARIANT CJD

Warning over rate of deaths

Britain's leading researchers into Creutzfeldt-Jakob disease warn today that the UK death rate from new variant CJD – linked to BSE, or "mad cow disease" – seems to be increasing. Writing in *The Lancet*, doctors from the National CJD Surveillance Unit in Edinburgh and the London School of Hygiene and Tropical Medicine report that there were nine deaths from nvCJD in the last quarter of 1998. That is significantly higher than in any previous quarter since nvCJD was first recorded in 1995.

Analysis of the mortality rate until the end of 1998 shows a rising trend, which would be compatible with an epidemic of brain disease starting among people who ate BSE-contaminated beef in the 1980s. But the researchers say it may not become clear for months or even years "whether the apparent increase in deaths towards the end of 1998 was a chance observation or marks a change in the underlying mortality rate". **Clive Cookson, London**

SCOTCH WHISKY

Asian problems hit sales

Scotch whisky exports dropped sharply last year as the Asian economic turmoil hit sales in the region which had accounted for much of the growth to record levels the previous year. Exports dropped 8 per cent in volume and 15 per cent in value, down from £2.39bn ($3.84bn) in 1997 to £2.03bn last year. Two-thirds of the fall was in Asia and 30 per cent was in Korea where sales plummeted from £140m to £38m.

Shipments to European Union countries were up 3 per cent, but sales were down in the UK where whisky has been losing ground to other white spirits preferred by younger drinkers, such as vodka and tequila. Shipments to Latin America also fell, with Brazil down 22 per cent – though there were rises in Venezuela and Mexico. In Europe, the strongest growth came from Spain and Sweden, both up 13 per cent. **John Willman, London**

NOMURA PUB CHAIN

Peace offer in beer dispute

Inntrepreneur, the pub chain owned by Nomura International, the Japanese investment bank, has offered peace terms to some 500 licensees in dispute over the terms of their leases. The disputes – over the arrangements that tie the tenants to Inntrepreneur for their beer supplies – have dogged the pub chain since its inception. Under the terms on offer, landlords can choose between a range of options ranging from renegotiating their leases on more favourable terms to surrendering them.

Most of the Inntrepreneur pubs – inherited from the pub estates of Grand Metropolitan and Foster's, the Australian brewing group – have been sold or spun off into Unique Pub Company. Of the remainder, some 550 have launched actions against Inntrepreneur under Article 85 of the Treaty of Rome. **John Willman, London**

FUEL COST ANGER

Minister to meet hauliers

John Reid, transport minister, is to meet angry hauliers next week to discuss their grievances over rising fuel duties, and to try to avert a prolonged campaign of disruption by truckers on Britain's roads. Aides of Tony Blair, the prime minister, were scathing about a proposed demonstration by truck drivers in London next Monday, and the level of support it was winning from some newspapers. In spite of government denials that British hauliers might move to other countries because of fuel duty rises, ministers are plainly concerned at the strength of feeling in the industry. But the Treasury is resisting any unpicking of the Budget. **George Parker and Charles Batchelor, London**

Car exports offset drop in domestic demand

By John Griffiths in London

A strong export performance – in spite of sterling's relative strength against the euro – is enabling UK car production to hold up well in the face of a near-halving of domestic demand for new cars in the first two months of the year as a result of changes to the registration plate system.

Car output in February rose by 1.5 per cent, to 148,058, compared with 147,840 in the previous February. This was not enough to compensate for a steep fall in January but has left total output for the year's first two months only 3.1 per cent lower, at 290,901 compared with 300,082 over the same period last year.

Production for export, which accounts for almost two-thirds of the total, rose by 6.6 per cent to 91,682 in February, and by 9.2 per cent to 186,631 over the first two months. In contrast, figures from the Office of National Statistics show that output for domestic consumption fell by 8.9 per cent in February to 56,196, and by 19.3 per cent in the first two months to 104,270.

The car trade is waiting anxiously to see if March lives up to its hopes of at least 300,000 registrations as a result of the introduction of a "T" registration plate on March 1.

There are concerns that, if it does not, the decision to swap an annual plate change on August 1 for changes on March 1 and September 1 could backfire on the industry. The aim is to substitute two yearly sales peaks more manageable than the August "bulge", when 500,000 vehicles or more are usually sold. However, the big drop in January and February sales is believed to be due to buyers waiting for the "T" plate. A further drop in July and August would risk leaving full year sales substantially lower than the scheme's advocates might have expected.

Meanwhile production of commercial vehicles was down. February output of 17,582 was 7.5 per cent lower year on year and in the first two months was 7.8 per cent lower at 36,064.

Pound's strength seen as 'striking'

Willem Buiter, an independent economist who sits on the monetary policy committee of the Bank of England, the UK central bank, told the Foreign Press Association in London that it was "extremely striking" that sterling remained strong in the face of sustained cuts in UK interest rates. **Richard Adams and Robert Chote write.** Though rates were reduced from 7.5 per cent to 5.5 per cent between last October and February, the pound has not moved against other principal currencies on the foreign exchange markets this year.

VEHICLE TRADE UK COMPETITION FINDINGS TO BE FED INTO EUROPEAN COMMISSION REVIEW OF MARKET

Inquiry will focus on price disparities

By David Wighton and Sathnam Sanghera in London

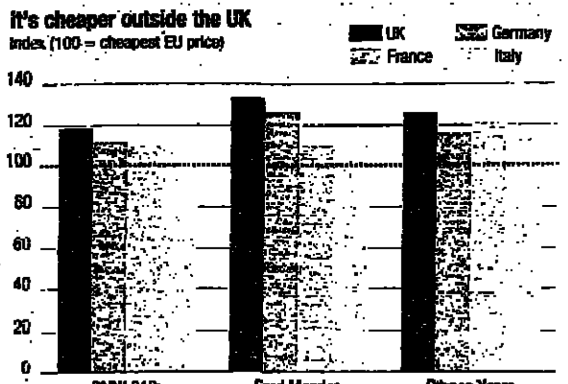
However indignant the car industry sounded this week at the announcement of a Monopolies and Mergers Commission investigation into prices of new cars, it could hardly have come as a surprise.

The car industry has been subject to such sustained criticism from regulators, politicians and the media in recent months that the Office of Fair Trading's referral to the MMC seemed inevitable.

The OFT itself has made clear it does not believe the car market is working well and that it has shown little improvement since a critical MMC report in 1992.

The car market has also been the focus of a media campaign on the alleged high prices UK consumers pay relative to those in other European countries. Even ministers who are sceptical about the government's encouragement of this campaign believe there is a particular problem with the car market.

"There is clearly something wrong with car retailing which the authorities need to address," said one.



Explaining the OFT's decision, John Bridgeman, director general of fair trading, said there was an "imbalance of power" between manufacturers and dealers that distorted competition.

"This is characterised by suppliers' continued refusal to give volume discounts to dealers which could be passed on to the consumer as lower prices and by other practices designed to exert a strong influence over selling prices," he said.

For example, there has been a trend for manufacturers to reduce trade discounts and make up the shortfall for favoured dealers with discretionary bonuses. The OFT said: "These bonuses can be used to put pressure on a dealer to toe the line on prices and not sell vehicles outside their allocated areas." The structure also appears to deter dealers from parallel importing.

Mr Bridgeman said manufacturers were using recommended resale prices to "mask the true selling prices" of vehicles.

"There is evidence that manufacturers and dealers try to reinforce the consumer's belief that the RRP represents the value of the car."

He said it was for the commission to decide whether RRPs should be outlawed in the car market, as they have been for electrical goods.

One possible reason for relatively high prices is the treatment of buyers of fleets of cars for companies. Dealers have long complained they are not offered the same volume discounts as fleet purchasers.

Martin O'Neill, chairman of the House of Commons trade and industry committee, which issued a highly critical report on the market in December, said it appeared private buyers were cross-subsidising the fleet market. "The large discounts they get just seem to have the effect of pushing up prices for private buyers," he said.

Results of the MMC inquiry, which must be completed within nine months, will be fed into a European Commission review of the market next year. This will examine whether to lift the industry's exemption from EU competition rules. These regulations allow cars to be sold only through exclusively franchised dealers in Europe.

The committee's report found there was no justification for the exemption and called for it to be scrapped when it comes up for renewal in 2002.

It was granted primarily as a safety measure – on the grounds that cars are potentially dangerous products, requiring specialist after-sales care.

However, the committee found no evidence that franchised dealers provided better service or care than that from independent garages.

RECRUITMENT

ROBERT TAYLOR

'New deal' for work

Research indicates that employee loyality could be nurtured by better representation

The American workplace, perhaps like the American marriage experience, is turning into a "series of close relationships governed by the expectation going in that they need to be made to work and yet will inevitably not last". Apparently it is good bye to "Pleasantville" and hello "serial monogamy".

The first part of the bleak message from Professor Peter Cappelli of the Wharton School in his book* on employee management published this week, is familiar enough. The old certainties of secure, lifetime jobs with predictable achievement, internal career advance and stable pay are dead.

This is because companies – mainly under competitive pressures – have introduced "markets inside their organisations". By doing so they have "systematically undermined the complex system of human resource practices that made long-term careers the staple of corporate life".

The resulting "open-ended" employment relationship is more crudely determined by the arbitrary shifts in power between the supply and demand of workers.

Prof Cappelli is right to point out that there is really little that is new about this. Mostly it represents a return to the employment systems that existed in US and other industrial societies before the arrival of mass production earlier this century.

Companies have rejected contract of job security in return for trust and loyalty

Companies have apparently abandoned the "elaborate" protections within their workplaces designed to recruit and retain employees. Instead they are once more returning to the use of contingent and short-term contract workers, outsourcing and compensation linked to organisational performance.

But the emerging employment relationship has brought a unilateral tearing up by management of the so-called psychological contract, "the gentleman's agreement" between companies and all their workers (including managers) where lifetime job security was guaranteed in return for trust, loyalty and adequate performance.

In its place has come what Prof Cappelli describes as the "new deal in the workplace" where market forces ensure instability, uncertainty, inequity and ephemeral relations. Inevitably such change appears to strengthen the position of employers, at least when supply outstrips demand. But as Prof Cappelli shows, it is not without its contradictions.

Companies require more from their employees in commitment at work but they can offer much less in return. Workers need more skills at a time when an employer's ability to fund the necessary training is in decline. The crucial question for employers is how to motivate and manage in the absence of trust and loyalty.

There can be no return to the lost world of "Pleasantville", not least because employees themselves do not want it. But today the US labour market is tight after almost a decade of growing employment. As a result, many companies cannot afford to dispense with or alienate employees by using hire and fire methods at a time when skilled workers are at a premium.

However, as Prof Cappelli points out, while employers may not have all the power, they continue to control job design, the structure of compensation and delivery of training. This means they are in a position to manage employee commitment, job retention and turnover.

There are no neat solutions to the dilemmas facing management in market-driven employment systems. In Cappelli's view these are "good for efficiency and opportunity and bad for traditional notions of fairness based on concepts of equity". But then he wonders how long this will last.

Under changes in markets, production techniques, and corporate governance we may cycle back to systems where companies shape their employment strategies in response to their internal developments rather than the vagaries of the external labour market.

A forthcoming study** by Richard Freeman at Harvard University and Joel Rogers from the University of Wisconsin throws some fascinating empirical evidence into the future of the US workplace debate that does point to a possible way forward.

They found – contrary to popular assumptions – that 60 per cent of their sample of 2,400 workers in private companies employing over 25 people, described their existing job as long-term or an opportunity for advancement in the same company. Only 15 per cent regarded their specific work as part of a career or profession that would probably take them to employment in different companies.

Moreover, most employees felt a loyalty to their company with a mere 15 per cent saying they had little or no such loyalty at all. The authors also suggest that a worker on average stays with the same employer for 15 years.

Survey suggests that average worker stays with same employer for 15 years

This hardly looks as though "new" workplace relations have become a focus for what the economist Robert Kuttner has called "one-night stands" with companies. Moreover, the Freeman Rogers volume suggests most companies are operating advanced human resource practices with 56 per cent of employees saying their company has some form of employee involvement system.

The authors found no evidence that US workers favour conflict. On the contrary, they want a co-operative approach to relations with their employers. However, they do want more of a say and better representation at work. This is needed to close what Freeman and Rogers call the "representation/participation gap".

But their managers seem far less interested in such a development, perhaps sensing that any reform of workplace governance would adversely affect their own authority.

The key recommendation is to create joint management/employee consultative committees that fall short of traditional collective bargaining but are independent and problem-solving bodies. This may seem hopeless in the present workplace climate, but not impossible.

**The New Deal at Work; Managing the Market-Driven Workforce by Peter Cappelli. Harvard Business School Press, $29.95.*

***What Workers Want by Richard Freeman and Joel Rogers, Cornell University Press, to be published this spring.*

WORKING BRIEFS

Nearly a third of interim management work part-time

Part-time work carried out by UK interim managers amounts to 30 per cent of the interim management market, according to a report from Russam GMS, the management consultants.

The average daily charge for interim managers is about £450, with London rates 20 per cent higher than the national average and 23 per cent more than two years ago.

The average age of an interim manager is 52 years, with 60 per cent aged between 45 and 55.

Dangers of noise highlighted

Noise at work can lead to occupational deafness so employers need to ensure their employees do not run that risk, according to a survey published this week by the Royal National Institute for Deaf People and the Trades Union Congress.

It found that nearly a quarter of those interviewed said they had to listen to uncomfortably loud sounds for more than four hours a day at work, and a third said work tasks left them with dullness of hearing. Nearly half said they were concerned that noise levels were affecting their hearing.

As many as 39 per cent of workers at call centres said their hearing was being damaged. The survey found that more than half the employees said they had not received any information or training about noise risks from their employer, and that figure rose to 90 per cent among call centre workers.

Concern over search firms

Just under two-thirds of a sample of City of London corporate financiers and equity and bond market traders believed that executive search companies were "more concerned with closing the deal" than with their own best interests.

Yet the survey, carried out by Wright & Partners, the executive search consultants, found that the vast majority of respondents were satisfied with the "professionalism" of the search companies they had dealt with.

Sixty-five per cent of them believed the firms had "a full or fairly good understanding" of their clients' brief.

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FINANCE DIRECTOR – INDIA

LEADING MULTINATIONAL - ENERGY MARKET

MUMBAI **£ SIX FIGURE PACKAGE**

- This major £ multi-billion plc is recognised globally for its innovative and leading-edge approach as it has moved swiftly to develop its business in the energy sector around the world.
- Within India its operations have been built on strong local partner relationships and have grown dramatically to become its premier business outside Europe.
- *As the business matures and with future planned* investments, they are looking to reinforce their top team through this appointment. The role reports directly to the Country General Manager and functionally to the International Finance Director. Success in this role offers significant career prospects.
- Working closely with the Country General Manager, you will provide a full functional and analytical support service, and be intimately involved in the strategic direction and operational management of the business. Key tasks include: continuing to build a commercially driven and proactive finance function, and significant treasury management and relationship building with local banks.
- Candidates will be graduate qualified accountants, *with* a proven international track record at senior level. This will have been gained within a progressive and demanding *international organisation* within the construction, power generation, oil and gas, manufacturing or other related sectors. Treasury management experience would be a considerable advantage.
- Presence, ability to build credibility quickly and develop relationships at all levels are prerequisites. Candidates will *be highly* commercial and proactive with a customer service ethos. They will ideally have worked and lived in India.

Please apply in writing quoting reference 8107FT
with full career and salary details to.
James Thorne, Whitehead Mann
4 The Courtyard, 707 Warwick Road, Solihull B91 3DA. UK
Tel: +44 (0) 121 709 0909. Fax: +44 (0) 121 709 0479
E-mail: angela.ramsay@amrop.com
www.whiteheadmann.co.uk

Whitehead SELECTION

Divisional Financial Controller

Manufacturing - £65,000 plus bonus & executive package

kmc international search & selection

The client company is a £500 million international manufacturing group. As a part of a continuing exercise to improve the strength of the management team, the company now requires a financial controller to develop and manage the finance function of a key £150 million division with operations across Europe and in the US.

Candidates will have some years of operational experience in a manufacturing environment, and be able to demonstrate an ability both to drive profitability and cash generation, and to lead a programme to upgrade management information systems. Good professional qualifications are important, but even more so are a strong character, personal integrity, good communications skills and commercial judgement.

Candidates may be of any nationality, but they must be fluent in English. Further language skills would be valuable.

The divisional offices are based in the south of England, but this position will involve a considerable amount of international travel. The group offers excellent opportunities for employees with the right skills and ambition.

Applications with full *CVs should be sent to* David Binney at kmc international search and selection. 7 Old Park Lane, London W1Y 3LJ.

Speculate and accumulate.

Accountancy Appointments every Thursday in the FT.

For more information on advertising opportunities please call:
Tel: +44 171 873 3351
Fax: +44 171 873 4331

VISION EXPRESS

Responsable du

"*Business* analysis"

Nottingham **£45,000 à £50,000 + voiture**

La Société

Vision Express est l'un des distributeurs Optique leader en Grande-Bretagne. Avec 100 magasins en propre et 50 magasins en Joint Venture et un chiffre d'affaires dépassant 150 millions de livres. La Société est une filiale de GrandVision, société française cotée en Bourse qui possède au total 800 magasins à travers l'Europe, les pays d'Europe de l'Est et l'Amérique du Sud.

La mission

Nous recherchons à recruter un nouveau responsable du "Business analysis" qui rapportera directement au Directeur Général. Sa mission première sera de diriger une équipe de 5 personnes, chargée du "Business analysis" pour la société britannique, qui inclut le contrôle des magasins, l'analyse de retour sur investissement, les indicateurs clé de performance et l'analyse commerciale. Sa seconde responsabilité sera de s'efforcer de mener à bien le reporting en lien étroit avec le Siège français du Groupe. Cette équipe travaille aux côtés de la Direction opérationnelle britannique et de la Direction du Contrôle de Gestion au niveau du Groupe.

Les exigences

Parfaitement bilingue anglais français. Diplôme d'expertise comptable ou Ecole de Commerce (avec spécialisation comptable et financière), complété éventuellement par un MBA (pas essentiel). Excellente connaissance des normes comptables françaises et anglo-saxonnes. Une expérience dans un groupe français et dans la distribution serait un avantage. Bonnes compétences analytiques combinées avec la pratique de tableurs et de bases de données. Une bonne capacité d'adaptation et des aptitudes à convaincre. L'aptitude à bâtir et à mener une équipe. Enfin capable d'apporter une contribution stratégique et de s'épanouir dans un environnement de travail opérationnel et peu hiérarchique.

L'avenir

C'est une bonne opportunité d'avoir un rôle clé dans un Groupe international *coté en Bourse connaissant une expansion rapide, avec possibilité de progression* internationale en terme de carrière.

Merci d'adresser un CV en anglais en précisant le salaire actuel à Paul Macildowie à l'adresse suivante:
Macildowie Associates, Rodney House,
Castle Gate, Nottingham. NG1 7AW, United Kingdom.
email: paulm@macildowie.co.uk

Macildowie associates
SPECIALISTS IN FINANCIAL RECRUITMENT

Head of Internal Audit

London **Fund Management** £ Excellent

Our client is one of the City's most innovative fund managers currently managing funds in excess of £26bn on behalf of a diverse portfolio of clients *including major institutions*, banks, charities and pension funds as well as private individuals. With a diverse portfolio of products and services, the organisation is today a pioneer in international investment with an established presence in venture capital and continuing growth in emerging markets. An exceptional opportunity has now arisen for an experienced accountant to join this major financial institution to lead and develop a risk based Internal Audit function.

THE ROLE

Managing and developing a high *calibre team, this is a rare opportunity* for the successful applicant to take a pro-active role in shaping the future of this global organisation. Acting as an internal consultant, supporting senior management, you will immediately assume responsibility for reviewing all aspects of the business including procedures and controls, with a strong focus on implementing change and raising risk awareness throughout the company.

THE CANDIDATE

The ideal candidate will be an ambitious ACA with a strong record of achievement to day. Experience of risk-based audit techniques gained from a fund management or investment banking organisation or the financial services team of a Top 5 accountancy firm would be desirable.

Applicants must possess drive, ambition, strong interpersonal skills and the ability to liaise effectively at senior levels. Candidates must also be *adaptable, creative and able to initiate* and manage change. The rewards will include a competitive remuneration package, coupled with the opportunity to contribute to the successful development of a leading fund management group.

Applicants should forward a CV in strict confidence, to Guy Townsend, Julian Usher or Caroline Hauswirth at Walker Hamill Executive Selection, quoting reference CH5519. Alternatively, immediate enquiries may be made to Caroline Hauswirth on 0171 839 4444, or via email: chauswirth@walker-hamill.co.uk

WALKER HAMILL
103-105 Jermyn Street
St. James's
London SW1Y 6EE
Tel: 0171 839 4444
Fax: 0171 839 5857

FINANCE DIRECTOR

Commercial and very well experienced with both multinationals and small companies. Looking for interesting opportunities in Oxford, Cheltenham, Chipping Norton area. Available up to three days per week.

Box 6808, Financial Times
One Southwark Bridge
London SE1 9HL

LONDON & CAPITAL

Investment Account Executive

Package commensurate with experience

- London & Capital, the independent International Investment Advisors, have a vacancy as a result of expansion for a dynamic individual to join its team providing quality investment advice and servicing to international private clients.
- Working in conjunction with the Directors of the business you will be responsible for sourcing and servicing US and South African clients.
- Candidates should be Chartered Accountants with wide experience of international, especially South African, investor requirements. In depth *knowledge if South African and US* tax is also essential, as well as an extensive existing network of professional US and South African contacts and clients.

Please send CVs to: Personnel Dept., London and Capital plc
15 Berners Street. London W1P 3DE

FINANCE DIRECTOR

ST CHRISTOPHER'S HOSPICE
S.E. LONDON
£50,000 per annum

St Christopher's is a charity providing skilled medical and nursing care for people with cancer and other serious illnesses, and support for their families and friends through their illness and into bereavement.

We are now able to provide an exciting opportunity to work closely with the Chief Executive to enhance our business performance, growth and development.

Fundamental to the success of the role will be the ability to delivery strategic and operational financial management.

You will have to :

- Ensure that appropriate financial policies/frameworks are in place to guide our financial decision making
- Contribute, as part of our management team, to the preparation of strategic plans including annual budgets and *forecasts*
- Plan and manage cash flow and advise and challenge business assumptions/plans to maximise benefit to the organisation.

Ideally with an excellent track record of financial management experience preferably gained over the last 10 years in healthcare charities, the successful candidate will be :

- able to function effectively as a key member of the senior management team
- thoroughly familiar with business management theory and practices relating to financial management
- able to accurately *analyse complex financial and accounting data and to communicate that data to a wide variety of professionals effectively.*

For an informal discussion please contact Robert Dunlop, Chief Executive or Chris Clark, Director of Development.

For an information pack please contact the Personnel Office, 51-59 Lawrie Park Road, Sydenham, London SE26 6DZ. Tel: 0181 778 9252 ext 305.

Closing date: **Tuesday, 6th April 1999** Registered Charity No:210667

Working towards equal opportunities

Business Planning & Analysis

Financial Services

Our client is a sophisticated, broad-based, Financial Services Group which, having experienced 3 years *of rapid change including acquisitions, is now poised for future growth.*

The Business Planning function is increasingly high profile and pro-active, necessitating the recruitment of a number of new Business Analysts plus a Group Management Accountant. Responsibilities *will include:*

- Provision of high quality management information and commercial insight
- Investment appraisal and project benefit tracking
- *Financial planning, budgeting, forecasting and modelling*
- Supporting management in commercial decisions

Highly Attractive South Coast Location

Suitable candidates will be qualified accountants or MBAs with commercial awareness and excellent communication and *relationship building skills. The roles all require experience of* current business analysis techniques, one demands sophisticated investment appraisal experience. A Financial Services background would be particularly valued, although not essential.

Packages up to c.£45,000, plus benefits, plus relocation

These are opportunities to join the business at an exciting stage and to make a real contribution to its future development.

Interested candidates should write with full CV, quoting current rewards package to Karen Wilson or Howard Foster, Hoggett Bowers, 28 Essex Street, London WC2R 3AT, Tel: 0171 970 9600, Fax: 0171 353 6924, quoting ref: LKW/21491/FT.

Hoggett Bowers | Executive Search and Selection

INVESTOR IN PEOPLE

Part of the PSD Group

Group Finance Director

Scotland **circa £60,000 + comprehensive benefits**

This Aim-listed specialist services group, which comprises a number of autonomous and semi-autonomous subsidiaries, operates in a variety of *sectors. It is diversifying and expanding* its activities and a key element of its strategy is the recruitment of a dynamic *Finance Director.*

Reporting to the Group Chief Executive and a member of the Main Board, you will take full responsibility for all areas of the financial function including information systems. You will also be expected to play a pivotal commercial role, contributing to the overall management and development of the Group.

To do this successfully, you will need to be a CA or equivalent and probably 35 plus. A creative thinker and motivational leader, your fluent and persuasive *communication skills will ensure you* are able to express your views cogently and effectively. Your personality will be *such that you integrate easily and* quickly throughout the organisation, enabling you to translate your ideas into *positive and practical action.*

Currently in a senior financial role which is probably in a service-based organisation, ideally property or agriculture-related, your energy and ambition will be prompting you to take on *additional* responsibility and challenge. This is just such an opportunity, in which the successful candidate will be rewarded by an excellent salary, comprehensive benefits package and the chance to make a telling impact on a growing organisation. Relocation assistance will *be available* where appropriate.

Interested candidates should forward a cv and covering letter to Richard Arnold at the address below. Closing date 31st March 1999.

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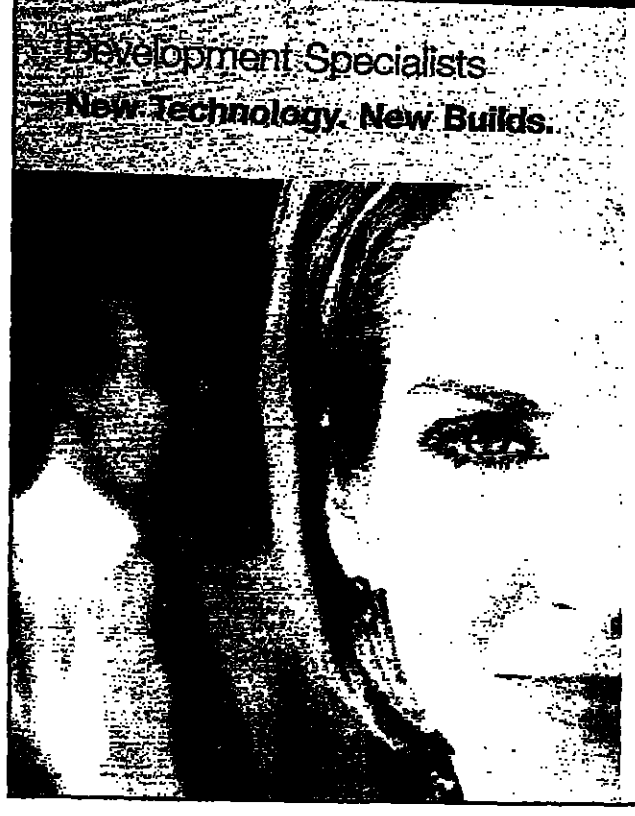
management solutions

Deloitte & Touche, 39 George Street, Edinburgh RH2 2HZ.

IT Appointments

Front Office IT - Key Players

Total Compensation from £60-135,000



Development Specialists

New Technology, New Builds.

Barclays Capital is an international investment bank. We provide integrated financing solutions to meet the needs of our global clients. As part of the Barclays Group, we have access to the balance sheet of a bank with assets of $364 billion and a AA credit rating. Central to our business strategy is a commitment to invest in the best people and world class technology. With this, we expect to deliver focused and innovative solutions to our clients. This is especially critical in our front office where *we need development specialists leveraging the very latest technology to build a* number of business systems. New applications are cross-product which gives technology individuals opportunities to expand their product knowledge. We are looking for developers who have already made an outstanding impact in a front office environment by delivering creative solutions to business challenges. If you can show us how your creative flair has set you apart from the crowd, we have the new technology and applications to enable you to reach your full potential. In return, you will be offered an exceptional remuneration package.

For further information, please contact Karen Higgins or Fiona Wright, quoting the relevant reference number, on 0171 806 1420. Alternatively, send your CV to McGregor Boyall Associates, 114 Middlesex Street, London E1 7JH. Fax: 0171 247 7475. Email: permanent@mcgregor-boyall.com or visit our web-site at www.mcgregor-boyall.com/barclayscapital

Pricing & Analytics

You will be working in a high profile front office team whose efforts are central to the firm's business and who provides pricing functionality across a wide range of instruments, including debt, fx and derivatives. You must have good front office experience which may have been gained across a variety of financial products.

Financial Analyst/Programmers
C++, COM, ATL, VB, VBA and NT

These are critical roles in the design and development of new tools. You will aid in project planning and architecture as well as implementation. Your skills set should include C++, COM, ATL, VB, VBA and NT. Strong presentation skills are required and experience of fixed income analytics or asset-backed securitisation would be useful. Ref: BCFT097

Senior RAD Developers
VB, VBA, COM and NT

Your technical skills portfolio should comprise VB, VBA, COM and NT. Particular knowledge of fixed income and derivatives, yield curve use and construction would be advantageous, as would experience of Sybase, SQLServer and web based development. Ref: BCFT098

Derivatives Trading System

Senior Business Analyst/Developers
RDBMS and either C++/Corba/Orbix on Unix or C++/DCOM on NT

Working on a new global interest rate derivatives trading system build and implementation, this role will involve application, middleware and component based development. You will have considerable experience in C++ against a major RDBMS in a front office OO development environment on either NT or Unix. Your understanding of front office trading environments will equip you to contribute immediately to the build of this new risk management/P&L system, which must be interfaced globally to Summit. Ref: BCFT099

Fixed Income Trading System

Senior Business Analyst/Programmer
Business Objects (ATL), COM/DCOM, Visual C++, VB

You will play a major part in delivering a new global fixed income trading system for position keeping and risk management. The architecture is VB and Business Objects (ATL) with a Visual C++ front end against a Sybase/Unix back end. You will be performing 'client' end business and technical analysis through build and implementation. In parallel the team will also be responsible for investigating the firm's front office e-commerce strategy and its upcoming implementation. Ref: BCFT100

Global Order Management System

Senior Trading System Developer
VB, RDBMS and Web (VBScript/JavaScript)

You will be working on one of the most strategic front office projects of the firm, comprising the build of a global futures order routing and execution system for exchange traded products. This is a technically challenging project, which will stretch your four+ years' full life cycle, client-server development experience to its limits. At least two of these years will have been spent developing in VB/RDBMS and, more recently, delivering Web class components (ASP, VBScript, JavaScript etc). Ref: BCFT101

Cross Product Trading Systems
Financial Markets Experience Desirable, not Essential

Senior Analyst/Programmer
C++ or VB and RDBMS

This role requires proven full life cycle development experience gained in a robust, demanding environment. This may be an investment bank - but it could just as easily be a software house with rigorous development standards. We need excellent C++ or VB and a major RDBMS (Sybase, Oracle, SQLServer, etc) *The applications are cross-product and support the full range of the bank's trading* businesses. Ref: BCFT102

A SHARPER FOCUS

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BARCLAYS CAPITAL

PROJECT MANAGERS / BUSINESS ANALYSTS

Implementation Manager - Investment Banking

City **to £55,000 + Banking benefits**

A young, dynamic investment bank is seeking delivery-focused implementation project managers. With a strong IT background, you must have a well-proven project management pedigree, having already successfully taken on full lifecycle third party application package implementations in an investment banking or dealing room environment. A university degree, outstanding technical skills and excellent knowledge of capital markets, risk, commodities, trade finance, or similar required. Project experience with any of the following would be advantageous: Unix, NT4, Oracle, RDBMS, SQL Server, interfaces, E-Commerce.

Business Analysts - Investment Banking

City of London **£40,000 - £58,000 + benefits**

We are currently looking for exceptional business analysis for 2 of the world's premier investment houses. You must have at least 3 years business analyst experience in an investment bank or consultancy, proven track record of analysis large projects, developing migration plans and have knowledge of accounting principals. In addition, you will be an excellent communicator, confident, pragmatic, dynamic and possess indepth business knowledge in areas such as equities, foreign exchange and securities. In return a high profile, challenging role with excellent career prospects awaits only outstanding candidates.

Project Manager / Consultants - Financial Software house

London City, Essex **£42-£59,000+benefits**

For a career in a growing, dynamic software house / consultancy you must have project management / Consulting experience in the investment banking / finance arenas and excellent technical experience including SQL, Visual Basic, Sybase, Powerbuilder, Unix and Windows NT. In addition, knowledge of equities, securities or risk management are advantageous, you must be extremely client facing and have the ability to command respect from clients and suppliers alike. The variety of projects and clients will make for an exciting and challenging position.

Please contact Andrew Summers on:

Huxley Associates

Tel: 0171 335 5858
Fax: 0171 335 0008
Email: senior.perm@huxley.co.uk
Mobile: 07971 - 551 045

SENIOR APPOINTMENTS
BANKING & FINANCE
America House, 2 America Square, London EC3N 2AH

SENIOR QUANTITATIVE ANALYST & C++ QUANTITATIVE DEVELOPERS

US INVESTMENT BANK

DERIVATIVES AND CASH / ALL PRODUCT AREAS

£££ SUPERB PACKAGES **CITY**

This is one of the world's most successful banking institutions with a powerful global presence and a strong reputation for leadership in financial product development and technical innovation. They are now seeking to recruit a talented quantitative analyst and a number of quantitative developers to further strengthen both their London trading activities and various new risk management initiatives. Both quantitative analysts and developers work together to develop, enhance and integrate trading and market risk models, libraries and strategies.

You should boast an excellent science/ mathematics academic background including a 1st/2.1 honours degree from a top-tier university and preferably a higher degree. You should have a minimum of one year's financial experience. For the developer positions a strong software engineering background is required. Successful candidates will have excellent C/C++, VisualC++, Visual Basic, Excel, Numerical Methods, etc.

Remuneration packages are superb and include substantial bonuses and benefits and a review in six months.

In the strictest confidence, please send a full CV to Craig Millar at Millar Associates, 6 Sloane Street, Knightsbridge, London SW1X 9LE. Please quote reference no. FT1703. Tel: 0171 823 2222. Fax: 0171 823 2208. Email:craig@millarassociates.com.

Millar Associates
INTERNATIONAL SEARCH & SELECTION

DDV
TELECOMMUNICATIONS & MEDIA CONSULTANTS
A Logica Company

DDV is a pre-eminent provider of consulting services to the European telecommunications and media industry. Our multidisciplinary team of professionals provides both public and private sector clients across Europe with an integrated range of services covering all disciplines that impact on the telecommunications/media business and its regulation.

DDV is seeking a **Telecommunications graduate**

This telecommunications graduate should have three to five years business experience in one of the following areas, Marketing, Business Management, or Strategic Planning. The successful candidate should have a working knowledge of both voice and data networks with a strong emphasis on IP technology, and the ability to translate this knowledge into a business plan for client implementation. Our preferred candidate will have worked in a telecommunication environment either with a service operator or system integrator, with a strong background on sales channel management for IP technology and services.

To apply, please respond in confidence to Rachel Miller (+44) 0171 836 5653 or send your CV to DDV, Waterman House, 41 Kingsway, London WC2B 6TP or rachel.miller@ddvgroup.com.

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For more information on advertising opportunities please call Christoph Gerth: Tel: +44 171 873 4027 Fax: +44 171 873 4331 or e-mail christoph.gerth@ft.com

IT Appointments

EUROPEAN CENTRAL BANK

VACANCY IN THE EUROPEAN CENTRAL BANK

SAP ADMINISTRATOR

The European Central Bank (ECB), established in Frankfurt am Main on 1 June 1998, is urgently seeking an SAP Administrator. The ECB has its own terms and conditions of employment, including a competitive salary structure, retirement plan, health insurance and relocation benefits. Candidates must be a national of a Member State of the European Union.

The holder of this position will be responsible for:
Providing first tier help services to internal users of the SAP Budget/Budget Monitoring System with regard to questions relating to its applications.

- Preparing/maintaining/updating documentation for all budget/budget monitoring related applications of the SAP System used by the ECB.
- Ensuring the administration of master data.
- Liaising with the basis administrator and IT system specialists.
- Providing technical/system support of the main business users in setting up/maintaining/enhancing the management information system.
- Developing, implementing and maintaining system-related procedures as they relate to users of the budget/budget monitoring features of the system.

Qualifications

- Several years of experience as a budget/budget monitoring/accounting administrator.
- Experience in the management/administration of an integrated financial and management accounting system, at least some of it with SAP R/3.
- Experience in drafting system documentation/procedures.
- Ability to work in a team.
- A very good command of spoken and written English and proven drafting ability in English. A working knowledge of at least one other European Union language is required.
- Knowledge of the Microsoft Office PC software package.

Ref: ECB/25/99/FT

Applications

Applications should include a Curriculum Vitae and a recent photograph, together with references confirming the required experience and skills. They should quote the reference number and should be addressed to the **European Central Bank, Directorate Personnel, Postfach 16 03 19, D-60066 Frankfurt am Main**, and should reach us no later than 26 March 1999. Applications will be treated in the strictest confidence and will not be returned.

The vacancy is also published on Internet: http://www.ecb.int but applications should only be submitted on paper via surface mail.

Investment Banking

RAD DEVELOPER
Structured Products
To £60,000 + bonus

Our client is the structured products desk of one of Europe's leading investment banks. They are looking for a highly numerate graduate to assist the trading desk in marketing exotic derivative products. Currently working for an investment bank or specialist City software supplier you will have an intermediate understanding of equity/interest rate derivative products with the ability to develop short term models covering the full product life cycle. A proven programming background in C++/Corba and Windows NT is essential as is the ability to understand Pricing Principles (Forward Rates, Yield Curves, Vanilla/Exotics, Volatility Matrices and Dividends).

QUANTITATIVE ANALYST
Market Risk
To £65,000 + bonus

Our client is a premier investment bank recognised as the market leader in the provision of Capital Market services. Their reputation is based on the ability to provide highly sophisticated and complex derivative products. They now require an experienced senior quantitative analyst to work in their specialist Market Risk team. You will have been educated to postgraduate level with first class C++/Java programming skills and the ability to program model prototypes for independent model validation and pricing input across all products. Experience should include deriving optimal hedging strategies for exotic option portfolios and measuring the resultant risks with non-normal and empirical distribution.

For a confidential discussion please call Rod MacKenzie at LFI on 0171 208 5800 or on 01279 725 683 (evenings/weekends), alternatively email to rmackenzie@lawfin.com

lfi LAW & FINANCE INTERNATIONAL

Head of Operations 60-100k
London
International software company.
Technical IT / Business ability needed, 5 years Equity Derivatives knowledge on Sybase Unix platform.

Contract Developer: Financial Control
Risk Management Excel Access VBA SQL.

Consultant 60k
Equity Derivatives, systems integration.
Customer liaison.

CAMPION RECRUITMENT CONSULTANTS
Africa House 64/78 Kingsway, London WC2B 6AH.
Tel +44 (0) 171 831 6600. Fax +44 (0) 171 831 6622
campion@camco.demon.co.uk

I.T Equity Research Associate
Europe
London office of prestigious US Investment Bank

Qualifications to include University degree with excellent financial and/or accounting skills. Software or I.T. industry experience and European language skills helpful. Willingness to work long hours.

The position attracts a competitive salary plus benefits commensurate with the level of responsibility.

Please send Curriculum Vitae to:
Human Resources, PO Box 155, London, SW1H 0ED

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IT Appointments in the FT.
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or E-mail christoph.gerth@ft.com

BANKING FINANCE & GENERAL APPOINTMENTS

Senior Opportunities in Compliance and Product Development
Highly Competitive Packages • Swindon

Nationwide

Nationwide is the World's number one Building Society with total assets in excess of £50 billion and more than 7 million members. As a mutual organisation, we can focus on the interests of our members who are also our customers, rather than being concerned with external shareholders. This means that we are able to maximise value for our members in the competitive products and rates we can offer. We also devote particular attention to maintaining our exceptional levels of service and reputation for strategic innovation, transparency and probity.

We provide an increasingly wide range of personal financial services throughout our branches and sales-force, as well as through telephone and electronic channels. Our savings and mortgages business is complemented by general and life insurance and unit trust operations to meet the challenges of the fast evolving retail market.

In order to retain our position, we require people with technical skills and strategic vision to make a significant contribution to developing the business for the future of our members.

Head of Legal Compliance Policy

This senior management role involves the formulation of policies and procedures for retail business conduct across the Group. Heading a team of highly skilled staff, your overall purpose will be to create a framework to enable the organisation to pursue business goals within legal and regulatory constraints. This will require initiative in responding to and keeping the business appraised of developments in legal and regulatory requirements as well as having the strategic vision to identify and develop options for new products.

The role will also represent the legal compliance function on major projects, provide ad hoc legal and regulatory advice to all divisions and approve all marketing and advertising material. In addition, you will be responsible for establishing and maintaining quality standards for all Nationwide regulated sales.

The successful candidate will be degree qualified with an impressive track record in a legal/compliance environment. Technically, you should be highly proficient and undoubtedly, you will be a clear and persuasive communicator with strong presentation skills. Experience within financial services is essential. **Ref: FN4386FT**

Pensions Development Manager

Following recent Government consultation papers on the future of pensions provision, there are likely to be significant changes in the way pensions are sold and processed. Nationwide requires a senior manager with excellent technical knowledge of the pensions market to be at the forefront of developing these new products for the organisation. The role requires an experienced pensions expert used to influencing and communicating strategy for new proposals, building the infrastructure to supply them and developing the systems to process them.

Along with a proven technical grasp of all aspects of the pensions industry, the role requires strong communication and relationship skills to facilitate development across different internal departments. A good knowledge of related areas such as legal, compliance, marketing and distribution is essential, as is experience of working in a multi-disciplinary environment.

The successful candidate will have at least ten years experience of the pensions industry and a track record of successful development of new initiatives in a fast moving environment. **Ref: FN4387FT**

To apply, email finance@harveynash.com or http://taps.com/Harvey_Nash or write to Harvey Nash plc, 13 Bruton Street, London W1X 7AH including current salary details. (Tel 0171 333 0033.)
Please quote the appropriate reference number.

London Birmingham Brussels Munich Paris Stuttgart Amsterdam Zurich

Harvey Nash
International Search and Selection

CJA RECRUITMENT CONSULTANTS GROUP
2 London Wall Buildings, London Wall, London EC2M 5UX
Tel: 0171-588 3588 or 0171-588 3576
Fax: 0171-256 8501 E mail: cjagroup@online.rednet.co.uk

GRADUATES
- Fixed Income Sales
London **Competitive**
Leading US securities firm

Our client, a leading US securities firm, is seeking high calibre graduates to work in its International Fixed Income Sales operation based in London.

Candidates will probably have graduated in either Economics, Mathematics, Science or Engineering with at least a 2(i), and must be numerate, self sufficient and be able to work under pressure. A recognised accountancy qualification would also be of interest.

It is essential to have a high level of PC skills, and a knowledge of fixed income products and languages are also an advantage.

Applications in strict confidence, quoting reference GFIS/FT will be forwarded to our client in the first instance. If there are companies to whom you do not wish your application to be sent, these should be listed in a covering letter addressed to the Security Manager, CJRA at the above address.

CJRA

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THE BERWICK GROUP

Very expensive heaven

Maastricht's art fair is set to be a scorcher, says Antony Thorncroft

The art market, like the harvest in Biblical Egypt, is expected to move in seven-year cycles. By such calculations the modest expansion that set in after the collapse of 1990, which halved values in speculative areas such as paintings and classic cars, should have exhausted itself by now.

But instead the antiques trade is in rude health, powered by the inexorable growth of the American economy. Sotheby's increased sales in the US by 17 per cent last year to overtake Christie's in the main market, although for consolation Christie's just clung on to global leadership by boosting its turnover by 7 per cent in Europe.

If 1998 was sound, 1999 has started even better. The demand for really choice antiques seems insatiable. Sotheby's secured some of the best when it was asked to dispose of the furniture collection of the late Giuseppe Rossi, an Italian dealer of refined taste. The 1,400 lots brought in £21.1m in London last week, more than twice the pre-sale estimate.

Such a result instantly improved sentiment. The resignation of a left-leaning German finance minister filled the antique trade's cup to overflowing. This year's Maastricht Fair, the grandest antiques market in the world, opened in fine fettle last weekend on the news of Oscar Lafontaine's departure and the exuberance has continued.

By the time the fair closes on Sunday a record 70,000 of the richest and most passionate collectors in Europe, plus some adventurous Americans, will have walked the broad avenues of a cheerless bunker on the edge of this delightful Dutch town, ogling the brightest paintings, the most polished furniture and burnished silver, the most costly jewels and the most arcane *objets d'art*. This is interior decorators' heaven.

It helps to be rich. At Cartier

The demand for really choice antiques this year seems insatiable

there is a £7m emerald and diamond necklace; at Colnaghi there is one of the finest north European 15th century paintings to come to market in years – a scourging of Christ by the Master of the Karlsruhe Passion, which was bought recently at auction for £3.4m; Richard Green, among 100 works, has a scintillating still life of cheeses by Clara Peeters, priced at £1.7m. Agnew's has a £1.5m family portrait by Zoffany; and there are paintings by Degas and Picasso and Mondrian and more, all bearing seven-figure price tags.

But at Maastricht things sell. On the first day Pelham Galleries disposed of a pair of console tables by Matthias Lock, among the finest examples of 18th century English rococo, and part of Paul Getty's furnishings of Sutton Place, for undisclosed millions. The actual figure remains a secret – art should be priceless – but many dealers reckon to achieve about a third of their annual turnover during the 10 days, and judging by the smiles, this Maastricht was set to be a scorcher.

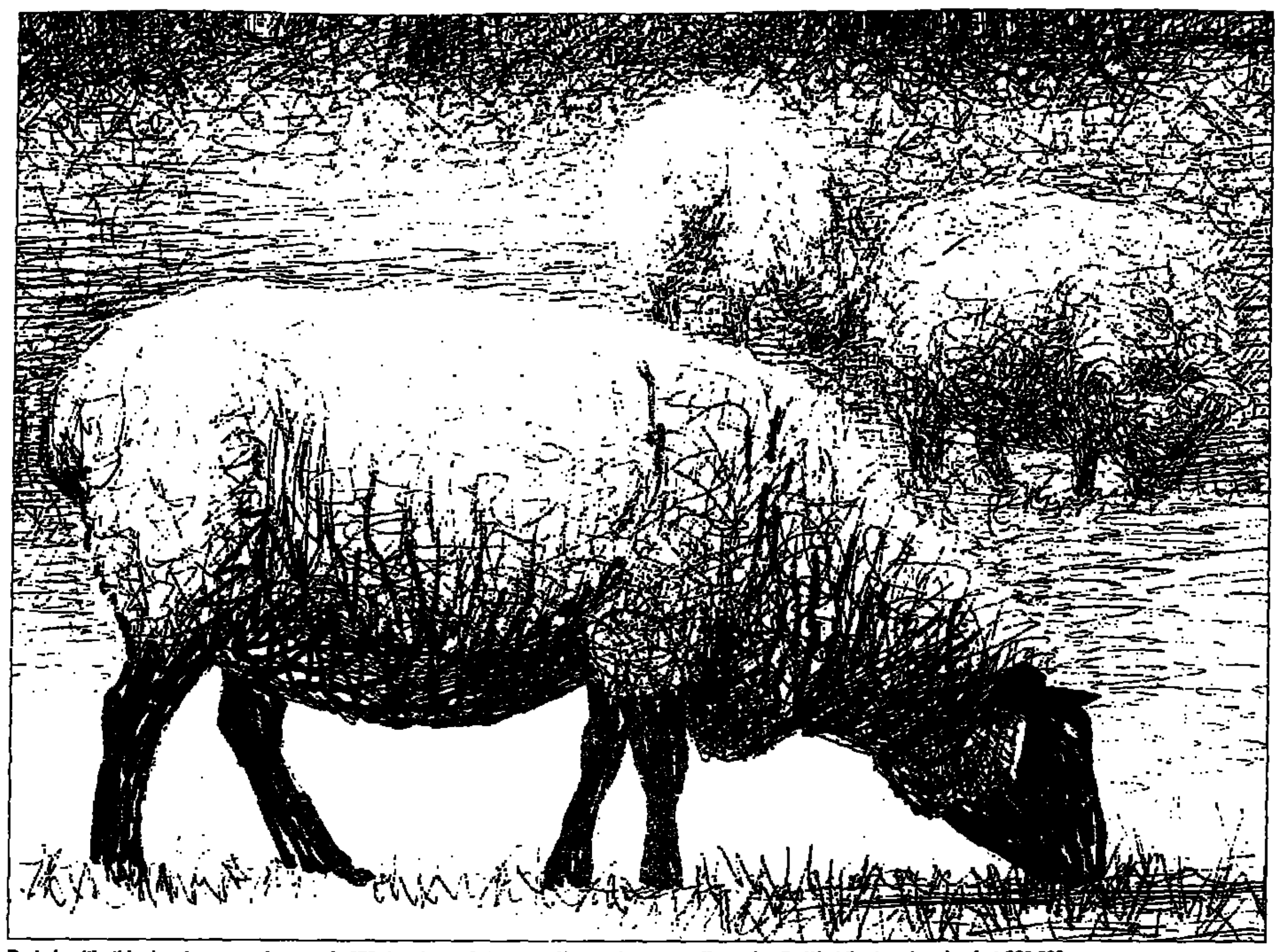
Not that the dealers actually sell their stock at the fair. To avoid the bureaucracy of Dutch VAT, many of the deals are concluded in London or elsewhere. Just as important as the selling is the buying – many dealers stole a march over their rivals by acquiring objects at the fair, and then re-sold the underpriced antiques – and the making of contacts.

Maastricht is the fair that attracts the serious buyers. Where else in Europe can you expect your stand to be picked over by 40 of the top patrons of the Guggenheim Museum in New York? What other fair offers about two thirds of the best Dutch and Flemish Old Master paintings now available on the market?

The fair is constantly changing. This year there are fewer Asian dealers – they have decamped to the Asian Fair in New York. There are also fewer textiles and Old Master drawings on display. But the modern art section has been hugely upgraded, thanks to the enthusiasm of dealer Leslie Waddington. Out have gone the sellers of meretricious soft porn; in have come leading young dealers, such as Xavier Hufkens of Brussels, who was happily selling Mapplethorpe photographs, Twombly drawings, and all the challenging modern artists who are now Establishment.

Only the absence of American galleries and collectors prevents Maastricht from being the antiques fair to end all fairs. It still has a very northern continental feel to it, especially in its paintings, its antiquities, and its furniture. The objects on display are the traditional passions of the cultivated European rich.

Eurosceptics will be happier in the marquee at the Duke of York's headquarters in London's King's Road over the next few days, where about 90 members of the British Antiques Dealers Association are displaying their smartest stock. This is aimed directly at the middle-class, middle-aged British collector, with plenty of brown furniture, glistening silver, decorative watercolours and paintings, and 19th century ceramics on offer. This is the antiques world as the British know it.



Rude health: this drawing, one of a set of 1972 drawings of sheep by Henry Moore on offer at Leslie Waddington, is priced at £60,000

DANCE NORTHERN BALLET'S 'DRACULA'

Chills and thrills

There is no point in being sniffy about Northern Ballet Theatre's *Dracula*. Art it may not be – not even NBT in over-optimistic mood could claim that – but it certainly summons Bram Stoker's guide to blood transfusion on to the dance stage, and succeeds in bringing the corpuscles to the temperature of a good martini. I recall reading *Dracula* when far too young and being transfixed with horror. Barmy as some of the moments in this staging – by Michael Pink as choreographer, Christopher Gable as director, and Lez Brotherston as designer – may be, it is still, to quote Miss Austen, "all horrid", and I don't suggest it as a happy outing for the tots.

It is, as audiences at Sadler's Wells can see until the end of the month, bloody (in the true sense) good theatre. Not subtle, mark you, for it goes all out to chill and thrill, and it has moments when laughter is not just an escape from tension but a response to an appalling naiveté (the scene set in a Whitby hotel is a marvel of ineptitude), but if you accept it on its own NBT terms – dance as rumbustious theatre – then it is great fun.

The narrative is best grasped from the programme notes, but the performances remain as sound and as full-blooded as when I first reported on it two years ago. Denis Malinkine's *Dracula* has a wardrobe of lurid house-coats and string hair, but his interpretation is concentrated, and the eroticism that underlies the piece – blood-lust is the phrase we need – is admirably shown. (His impassioned duet with Jonathan Harker has slightly more going for it on sexual terms than his attempts on Mina Harker: no wonder Jonathan wakes up screaming.)

Harker is a dull stick, but Daniel de Andrade gives him weight, and Mina, all purity and promising veins, is very nicely done by Jayne Reagan. Charlotte Broom is alluring as Lucy Westenra, for whom anaemia is just

These artists race through the action like vampire bats out of hell

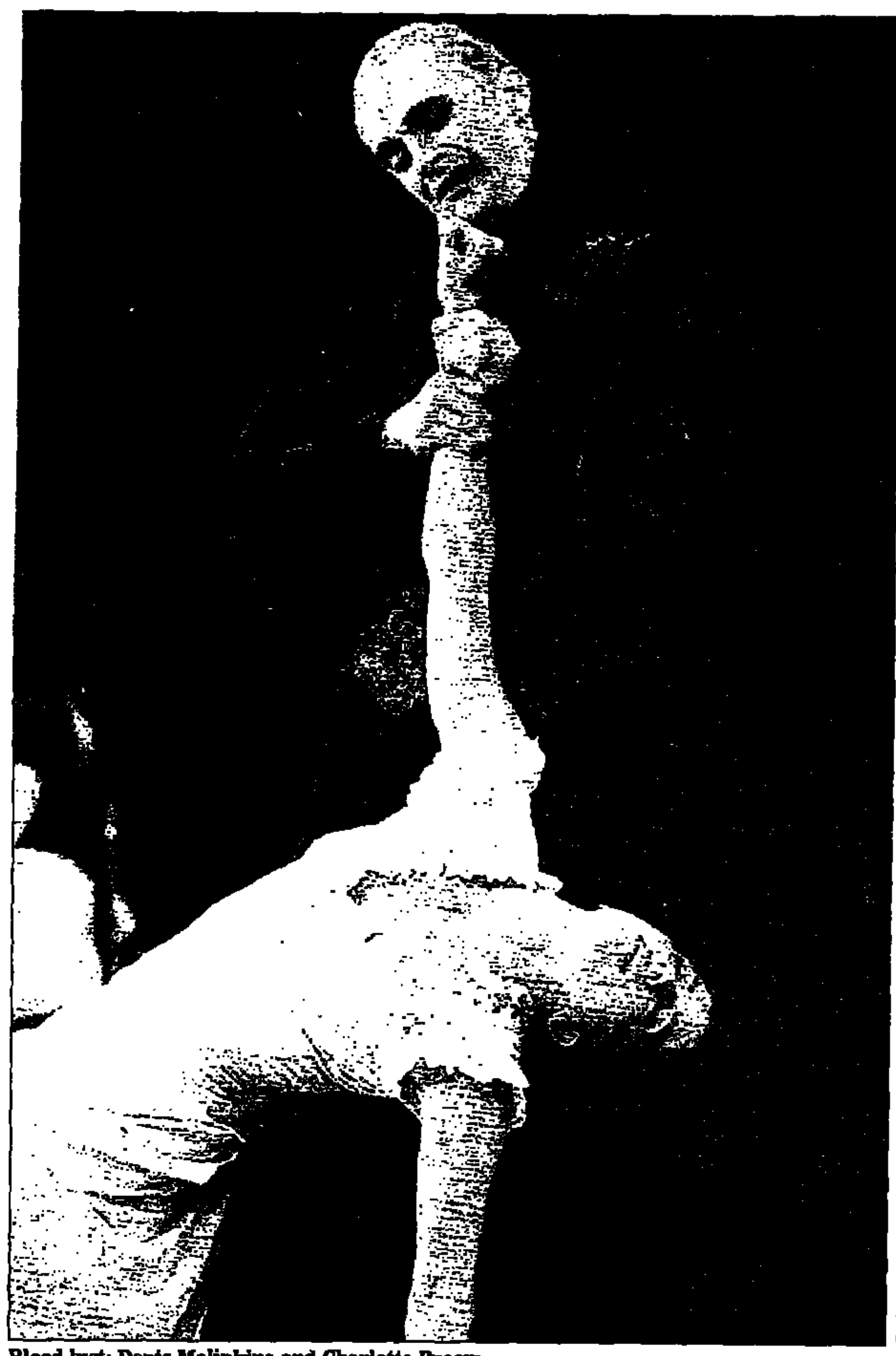
another kick, and Jeremy Kerridge is once again seen as a very fine dance actor in the role of the fly-eating Renfield – a true and frightening, because beautifully observed, characterisation.

These artists, and their colleagues, race through the action like vampire bats out of hell. Brotherston's designs are, as ever, brilliant in imagination as in realisation: his skill in creating location and atmosphere, in making us *believe*, is of inestimable benefit to this, as to every other, NBT production. Philip Feeney's score is both music and soundtrack, by no means undistinguished, absolutely effective, and atmosphere all the way.

Of course the staging is sheer hocus-pocus, but NBT's artists and NBT's policies have taught us that if well-done, the tricks still work, and *Dracula* is, I venture, the company's most successful production yet. You watch it, are decently enough shocked, and you sense the theatre's essential identity as a place of disbelief suspended and belief imposed. There are moments of wild and unintentional farce – and not just from the aspirant vampires and Gothic groupies *en grande toilette* who peppered the audience at Wednesday's first Sadler's Wells performance. The Whitby hotel scene lasts an eternity, is populated by the local amateur operatic society performing *The Shopgirl Princess*, and offers a one-stepping priest, a drunken chambermaid, Buffalo Bill having a more oriental look than is strictly necessary, a staircase down which people rush in varying degrees of disarray, and one guest who has just dropped in from the well of loneliness. I loved it for three minutes, but alas it went on. And on. There is also, at curtain-rise, a touch of historical colour with a newspaper vendor bearing a placard "Oscar Wilde released". That's called *verismo*.

Clement Crisp

Sadler's Wells, London EC1. Tour sponsored by Halifax



Blood-lust: Denis Malinkine and Charlotte Broom — Alastair Muir

MUSIC TOWARDS THE MILLENNIUM

Waiting for the verdict of history

Arts promoters must be hoping the man on the Clapham omnibus has acquired a taste for new music. You wait years for a leading festival devoted to 20th-century music and then half a dozen come along at once. Thanks to its policy of encouraging new trends, the South Bank is a compulsory stop for such events, and important series looking back at the music of this century are arriving there nose-to-tail. The public may be forgiven for getting confused as to who is promoting what.

The London Sinfonietta's concert at the Queen Elizabeth Hall on Wednesday featuring a pair of one-act operas by Oliver Knussen was part of the "Towards the Millennium" series, focusing on the 1980s, but it could just as well have been a foretaste of the BBC's "Endless Parade", featuring British music classics since 1945, which is due to start picking up passengers over the next couple of weeks.

There is plenty in Knussen's *Where the Wild Things Are* (1979-83) to remind us of Britten and place the composer firmly in the British operatic tradition. Stravinsky is tucked away in the score too, together with other, more blatantly admitted influences, but the opera has a bright-eyed willingness to entertain all its own.

Later in the decade Knussen produced a longer companion piece, *Higglety Pigglety Pop!*, and the two are now officially an item. They share Maurice Sendak as joint librettist and his children's fantasy tales as inspiration. But the later opera is easily the more subtle and intriguing of the two. Knussen's music draws the listener into a world of dreamy fantasy and he hardly ever lets the mood slip.

Most of what matters in these short operas goes on in the orchestra and the London Sinfonietta, conducted by the composer, combined with the magical French textures of Ravel and the sharpness of Stravinsky. The vocal parts ask for character rather than notable singing and that was how Cynthia Buchan and David Wilson-Johnson, in particular, played them. Overall the cast was not outstanding.

The BBC was recording these concert performances for a future relay in its "Sounding the Century" series and Deutsche Grammophon will be issuing the two operas on commercial recordings. If they do stay the course, cutting-edge opera producers a century from now could have a field day. Babies being eaten, parents who desert their children, nannies devoured by lions – what *will* they say about the 1980s?

Richard Fairman

Supported by the Britten-Pears Foundation, the Holst Foundation and the Leche Trust

INTERNATIONAL Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Dutch National Ballet: *programme* combining the Dutch premiere of Acts of Light by Martha Graham, with the world premiere of Krzysztof Pastor's Bitter Sweet, and Balanchine's Symphony in C; Mar 19, 21, 24

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Die Zauberflöte: by Mozart. Conducted by Hartmut Haenchen; Mar 20, 23

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Der Rosenkavalier: by R. Strauss. Conducted by Jiří Kout; Mar 21

BOLOGNA

OPERA
Teatro Communale
Tel: 39-51-529999
La Cena delle Beffe: by Giordano. Conducted by Bruno Bartoletti in a revival of Liliana Cavani's staging, first seen in Zurich four years ago. The cast is led by Daniela Dessì and Alberto Cupido; Mar 20, 21, 23

CHICAGO CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Pierre Boulez in works by Stravinsky, Debussy and Berlioz, with harp soloist Sarah Bullen; Mar 20
● *Chicago Symphony Orchestra* and Chorus: conducted by Pierre Boulez in a concert performance of Schoenberg's Moses and Aron; Mar 24

DRESDEN

OPERA
Semper Oper
Tel: 49-351-48420
Ariadne auf Naxos: by R. Strauss. Conducted by Colin Davis in a new staging by Marco Arturo Marelli. Cast includes Susan Anthony and Jon Villars; Mar 19, 22

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● Academy of St. Martin in the Fields: conducted by Murray Perahia and Laszlo Heltay, in a programme of works by Mozart, with soloists including tenor Anthony Rolfe-Johnson; Mar 22
● Academy of St. Martin in the Fields: conducted by pianist Murray Perahia, in a programme of works by Mozart; Mar 22
● Philharmonia Orchestra: conducted by David Zinman, in works by Mendelssohn, Mozart, Daugherty and Tchaikovsky, with violin soloist Joshua Bell; Mar 23

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Rogier van der Weyden: the 20 surviving paintings attributed to the 15th century Netherlandish artist are mostly too fragile to travel. The National Gallery has five, and these are supplemented by two from the Gulbenkian in Lisbon and two from the Getty in California for this show, which celebrates the 600th anniversary of his birth.; to Jul 4

FESTIVAL
London Handel Festival
Tel: 44-181-336 0990
London Handel Festival: highlights include a staging of Handel's opera Lotario at the Britten Theatre, with the London Handel Orchestra conducted by Denys Darlow/Paul Nicholson and soloists from the Royal College of Music (Mar 23-25); concerts at St. George's Chapel, Windsor Castle, St. George's Church, Hanover Square and St. Andrew's Church in Holborn; to Apr 25

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Mar 24

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Mar 20

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Katya Kabanova: by Janáček. Conducted by Paul Daniel in a staging by David Pountney, with sets by Stefanos Lazaridis and costumes by Marie Jeanne Lecca; Mar 21

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● New York Philharmonic: conducted by Yuri Temirkanov in works by Shchedrin and Stravinsky, with violin soloist Hilary Hahn; Mar 19, 20
● New York Philharmonic: conducted by Yuri Temirkanov in works by Stravinsky, with violin soloist Hilary Hahn; Mar 23

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
The Treasury of Saint Francis at Assisi, around 70 masterpieces of medieval and Renaissance panel painting, gold, textiles and manuscript illuminations, are joined by 30 loans. Includes pivotal works in the development of the early Renaissance; to Jun 27
Whitney Museum of American Art
Tel: 1-212-327 2801
Ray Johnson (1927-1995): Correspondences. First major museum show about the artist who was a progenitor of pop and mail art. The 150 works on display include paintings, collages and mailings from Johnson's New York Correspondence School; to Mar 21

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. The cast is led by Plácido Domingo (replaced by Yuri Marusin on Apr 3), Galina Gorchakova and Olga Borodina; Mar 22
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
● Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Pancella in the title role; Mar 21, 24
● Madama Butterfly: by Puccini. Conducted by Guido Johannes Rumstadt in a staging by Mark Lamos first seen in November, with sets by Michael Yeargan and costumes by Constance Hoffman; Mar 20, 23

PARIS

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Magic Flute: by Mozart. Conducted by Friedemann Layer in a staging by Robert Wilson; Mar 20, 21, 23, 24

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
● San Francisco Symphony and Chorus: conducted by Roberto Abbado in works by Bloch and Rossini; Mar 24
● San Francisco Symphony Orchestra: conducted by Herbert Blomstedt in works by Berwald and Brahms; Mar 19, 20, 21

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Japan Shinsei Symphony Orchestra: conducted by Chosei Komatsu. Mar 20
● Vienna Philharmonic Orchestra: lecture by Dr Clemens Hellsburg and chamber music by R. Strauss; Mar 22
● Vienna Radio Symphony Orchestra: conducted by Heinrich Schiff in works by Beethoven and Dvorák; Mar 19

VIENNA

EXHIBITIONS
Austrian Museum of Applied Arts
James Turrell: retrospective of the American artist who incorporates the elements into his architectural designs. to Mar 21
OPERA
Wiener Staatsoper
Tel: 43-1-51444
Cavalleria Rusticana: by Mascagni/Pagliacci by Leoncavallo. Simone Young conducts; Mar 21, 24

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

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Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

The day Microsoft 'got' the internet

In this second extract from his new book, Bill Gates explains how his company used a firestorm of e–mail and a host of informal initiatives to shift its strategy in response to 'bad news on a colossal scale' – the threat to its business posed by the net

The internet was not always the top priority in Microsoft's strategy. Its arrival became the biggest unplanned event we've ever had to respond to. In fact, in 1995 various experts predicted that the internet would put Microsoft out of business. This was bad news on a colossal scale. We used our digital nervous system to respond to that crisis.

On August 24, 1995, we introduced Windows 95, the most ambitious software product to reach out to the general consumer, with the biggest fanfare in computer history. Windows magazine said: "This year – for better or worse – Microsoft wins the war".

Within a couple of months, though, the press coverage cascaded in the other direction. The internet had burst into the public's awareness, and the perception was that Microsoft hadn't been invited to the new party. Now stories in the press said that we "didn't get it". The internet signified our doom. Small, nimble competitors would put Microsoft out of business.

On December 7, 1995, we held our first Internet Strategy Day, where for the first time we publicly previewed the array of technologies we were developing to integrate internet support into our core products. Within a year of those announcements we had "internet-enabled" our important products and delivered a number of new ones focused on the internet.

Now we lead in several important internet areas and have a growing number of people using our browser. No one company will dominate the internet, but Microsoft has come back to play an important role.

How, our customers and the press often ask me, did we turn the ship around so fast?

First of all, we were never as oblivious to the internet as we might have seemed to outside observers. Back in 1991 we'd hired J. Allard, a specialist in inter-networking, to ensure that we developed the right technologies for inter-operability. By mid-1993 we'd built support for the basic internet networking protocol into our Windows NT product, both server and desktop. By then we were also well under way with developing our approach to an online service, which became MSN.

We had an internet site set up in a hallway of Building 2 to test our internet connectivity. As a draw, we made a minor upgrade to MS-DOS available on the site. J. Allard would drag everyone to Building 2 to show off the activity and fire up people about the internet's potential. In a 10-week period customers downloaded twice as many copies of the MS-DOS upgrade from this site as from CompuServe, a level of activity that told us something big was brewing.

But let's also be clear. In 1993 we were not focused on the internet. It was a fifth or sixth priority. Our new Microsoft internet site consisted of three machines on an eight-foot folding table in J. Allard's hallway with handwritten instructions on how to connect to the internet.

The yellow network cable for the internet connection ran out of his office over his wall to the machine in the hall. Four power connector strips linked to the electric outlet from another person's office to power all the equipment on the table. Duct tape held all these cords in place.

It wasn't long before a fire marshal showed up, intent on shutting down Microsoft's site as a fire hazard. A week's reprieve enabled J. to transfer the machines to our corporate IT facility, where we began to transform our fledgling internet support into a full-blown corporate programme.

At this time, we didn't have an overall internet strategy for the company. We didn't see that the internet, a network for academics and techies, would blossom into the global commercial network it is today. We were focused on broadband applications such as video-conferencing and video-on-demand.

The internet's sudden growth in popularity changed all the rules. People were willing to put up with the internet's deficiencies because it made vast amounts of information available and enabled easy communication. Content providers raced to respond to the opportunity, creating exponential growth. In 1993 alone internet use doubled to more than 25m people.

The impetus for Microsoft's response to the internet didn't come from me or from our other senior executives. It came from a small number of dedicated employees who saw events unfolding. Through our electronic systems they were able to rally everybody to their cause. Their story exemplifies our policy, from day one, that smart people anywhere in the company should have the power to drive an initiative.

We could not pull off such a policy without the technology we use. In many ways technology has shaped the policy. Do people all over my company feel free to send me e-mail because we believe in a flat organisation? Or do we have a flat organisation because people have always been able to send e-mail directly to me? For years everybody at Microsoft has had a PC and e-mail access. It's shaped the way we think and act.

In January 1994 J. Allard wrote a memo in which he laid out the opportunities and dangers presented by the internet.

Coincidentally, within a week Steven Sinofsky (my technical assistant then) went to Cornell University on a recruiting trip. While stuck there for two days in a snowstorm, he checked how the university was using computers. Steve was amazed at the revolutionary changes Cornell had undergone since his visit the year before.

In his e-mail trip report Steve marvelled at how "wired" the school was. About a third of the students had PCs, some school departments provided PCs, and kiosk PCs were available in public spaces. E-mail use by students was close to 100 per cent. A student could view her current course schedule, her previous grades, her outstanding accounts, financial aid information, and a directory of the school community online. Many faculty members were communicating with students online and used online chat services to collaborate with each other. Steve even saw real-time video-conferencing over the internet.

What struck Steve was how thoroughly this technology had become integrated into campus life "in practically no calendar time" and how students took it totally for granted. He said that for students "the online services are as ubiquitous and expected as regular phone service" and that "this pace of change in information access is faster than for any other technology I have seen in my lifetime, including the personal computer itself."

J. and Steve made a number of recommendations about what Microsoft should do to participate in this revolution. Where Steve had focused on the users and cultural changes, J. drilled into the technical implications for a variety of Microsoft products. He noted that we were behind many of our competitors as far as the internet was concerned but said that our "agility and creativity will allow us to catch up quickly" provided there was "efficient communication between the groups within Microsoft that these efforts impact." J. listed a wide range of Microsoft groups he thought needed to co-operate in an internet effort.

Steve and J.'s memos quickly circulated by e-mail among a large number of people at Microsoft.

They set off a firestorm of electronic deliberation. The number of issues to be considered was enormous. How should our operating systems support the internet? What did "internet ready" or "internet enabled" mean for Microsoft Word, Microsoft Excel, and the rest of our productivity suite? What did it mean for our e-mail products? What new products did we need? What internet technologies should be packaged as new products, and what technologies should be incorporated into our existing products? Which technologies should we license? Should we focus initially on the ways businesses could use internet technologies internally or on the ways consumers could use the technologies broadly?

Sometimes an idea got quick agreement. Sometimes the response was shrill mail saying: "You've got it all wrong". At different times people prodded me and other senior executives to move faster. We told middle managers to go out and explore the internet, to develop their own impressions and come to their own conclusions about what had merit on the web and what didn't. We all had favourite sites we'd recommend to the others. Checking out competitor sites became something you did every morning. I still do. I have one PC in my office set up to rotate through a number of web sites, including our competitors' sites, so that I can see how different companies are using the web.

These independent explorations led to dozens and dozens of great ideas. Quickly, over e-mail, people offered their opinions, fleshed out the issues, considered the options. The amount of e-mail was just fantastic. E-mail discussions led to many small group meetings – often loud, informal ones in the hallways to hammer out recommendations. "Hallways and e-mail" – that's how it happened. As topics expanded, smaller groups would break off into their own e-mail chains to consider subsets.

Before long, large numbers of people in different parts of our organisation were participating. I was engaged in lengthy e-mail exchanges with dozens of people involving everything from our business strategy for online services to our technical approach to hyperlinking.

To get a big company moving fast, especially on a many-headed opportunity like the internet, you have to have hundreds of people participating and coming up with ideas. But you've also got to get them focused, or you'll never get any decisions made or get anything done. Our digital nervous system informed and propelled our decision making.

E-mail generated the thinking and analysis, so teams moved quickly to develop strong points of view and recommendations. Once the e-mail chains got long enough and we had enough issues and recommendations to consider, we'd go off on retreats to produce the final decisions. Then we'd set priorities and ensure co-ordination among big groups. In 1994 we had three classic retreats several months apart. After the first one, on April 6, 1994, I e-mailed my staff to say: "We're going to make a big bet on the internet".

I devoted my April 1994 Think Week to the internet and multimedia topics. In a Think Week, which I do twice a year, I set aside all other issues to concentrate on the most difficult technical and business problems facing the company. We held our first important progress review in August 1994.

Once again, it was the newer employees running the show. One of the biggest concerns at the time was whether we could convert our internal product and sales information from its database format into internet-readable HTML format. Much of the massive amount of product information was appropriate for customers, and we thought it would be a great addition to our web site as we were getting off the ground. One person at the meeting felt that the technical challenges of conversion would be too difficult. The next speaker turned out to have already developed a converter on his own initiative. His manager had told him the internet would never be part of their group's business. By the time of this meeting, the small team had already converted thousands of files containing product information into html, and many of these files were already beginning to go online. I was pleased to see so much initiative.

By early 1995, months before we introduced Windows 95, every team at Microsoft had defined its internet charter and begun development. In short order we were rolling out internet add-ons, internet integration and new internet products.

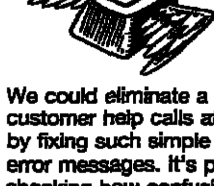
In a May 1995 e-mail memo called "The Internet Tidal Wave", I summarised our strategic directions and decisions and announced a corporate reorganisation to map our internet goals to every segment of the company.

I made certain that the entire company understood the importance of our focus on the internet: "Developments on the internet over the next several years will set the course of our industry for a long time to come…The internet is the most important single development to come along since the IBM PC was introduced in 1981…

"Since the internet is changing so rapidly we will have to revise our strategies from time to time and have better inter-group communication than ever before. Our products will not be the only things changing. The way we distribute information and software, as well as the way we communicate with and support customers, will be changing."

By the time we went public with our internet strategy in December 1995, it was damn the torpedoes, full speed ahead. As I've said several times since: if we go out of business, it won't be because we're not focused on the internet; it'll be because we're too focused on the internet.

Those baffling error messages floor me too



We could eliminate a lot of customer help calls at Microsoft by fixing such simple things as error messages. It's pretty shocking how confusing or cryptic they are.

Here's one of my favourites, which perhaps one user in a thousand might understand: "The DHCP client could not obtain an IP address. If you want to see DHCP messages in the future, choose 'yes'; otherwise choose 'no'."

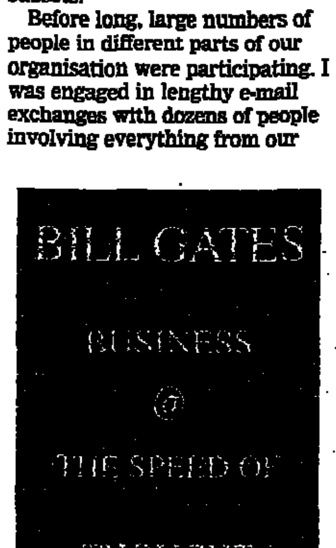
I love that "otherwise choose 'no'." The message assumes that everybody understands the meaning of DHCP (a method for allocating computer addresses on a network) but that nobody understands the difference between yes and no.

I didn't know what this message meant the first time I saw it, so like other users, I chose "no" – I never wanted to see this particular message again. I showed this error message in a recent slide presentation while making the point that we need to push for simplicity in our software, and a few people thought I'd run into a technical problem in the middle of the speech! We have fixed this message in the latest version of Windows.

Have you ever seen the error message that says the system can't associate a file with the right application? That one is really frustrating. If the system doesn't know what files go with what programs, how likely is it that you will? And how many different error messages have you got when you've tried unsuccessfully to connect to a web page? Could anybody, on the basis of one of those error messages, figure out the real reason for the failure?

The problem is not only that the messages are confusing. It's that the system as a whole is not smart enough to help the user through a problem.

Instead of simply alerting the user to some inscrutable error, the software needs to fix the problem automatically or walk the user through the necessary steps to fix it. We now have software wizards, for instance, that help users through printing problems or give users shortcuts, and we plan to provide more wizards in the future.



Business @ the Speed of Thought: Using a Digital Nervous System
by Bill Gates with Collins Hemingway
Penguin Books, London
470pp, £18.99, published March 25

To order a copy at the special price of £18.99 inc free UK pp, call FT BOOKSHOP on 0181-324 5511 (+44181-324 5511)
Fax: 0181-324 5678 (+44181-324 5678)

The first extract in this series appeared on March 18 (Speed gives life to the digital nervous system). The remaining extracts will appear on March 20 (Home is where the internet is) and 22 (Coping with an era of change). An interview with Bill Gates by Louise Kehoe appeared on March 17; her reflections on how the future is shaping up for Microsoft and for the computer industry as a whole will appear on March 23.

Why bad news is good to hear

At least it's better than the alternative: the silence that conceals a problem

I have a natural instinct for hunting down grim news. If it's out there, I want to know about it. The people who work for me have figured this out. Sometimes I get an e-mail that begins: "In keeping with the dictum that bad news should travel faster than good news, here's a gem".

A lot goes wrong in any organisation, even a good one. A product flops. You're surprised by a customer's sudden defection to another vendor. A competitor comes out with a product that appeals to a broad new market. Losing market share is the kind of bad news that every organisation can relate to.

Other bad news may have to do with what's going on internally. Maybe a product is going to be late, or it's not going to do what you expected it to do, or you haven't been able to hire enough of the right sort of people to deliver on your plans.

An essential quality of a good manager is a determination to deal with any kind of bad news head on, to seek it out rather than to deny it. An effective manager wants to hear about what's going wrong before he or she hears about what's going right.

You can't react appropriately to disappointing news in any situation if it doesn't reach you soon enough. Today's digital technology can ensure you get the news and you can put your organisation into action fast.

How fast a company can respond in an emergency is a measure of its corporate reflexes. People in the organisation will feel lousy and threatened by bad news, but that's okay as long as they feel it as a group.

As an act of leadership, I created a sense of crisis about the internet in 1994 and 1995. Not to leave people paralysed or unhappy, but to excite them into action. The leader needs to create an environment in which people can analyse the situation and develop a response.

I like good news as much as the next person, but it also puts me in a sceptical frame of mind. I wonder what bad news I'm not hearing. When somebody sends me an e-mail about an account we've won, I always think: There are a lot of accounts nobody has sent mail about. Does that mean we've lost all of those?

That reaction may seem unwarranted, but I've found there's a psychological impulse in people to send good news when there's bad news brewing. It's as if they want to lessen the shock.

A good e-mail system ensures that bad news can travel fast, but your people have to be willing to send you the news. You have to be consistently receptive to bad news, and then you have to act on it.

Sometimes I think my most important job as a chief executive is to listen for bad news. If you don't act on it, your people will eventually stop bringing bad news to your attention. And that's the beginning of the end.

In three years every product my company makes will be obsolete. The only question is whether we'll make them obsolete or somebody else will. In the next 10 years, if Microsoft remains a leader, we'll have had to weather at least three big crises.

That's why we've always got to do better. Ask anybody who's ever worked at Microsoft and they'll tell you that if there's one cultural quality we have, it's that we always see ourselves as an underdog.

I see us as an underdog today, just as I've seen us as an underdog every day for the last 20 years. If we don't maintain that perspective, some competitor will eat our lunch. I insist that we stay on top of the news, as well as pursue longer-term developments on the research front, and that we use "bad news" to drive us into putting innovative features into our products.

One day somebody will catch us napping. One day an eager upstart will put Microsoft out of business. I just hope it's 50 years from now, not two or five.

Business lessons

- A company's ability to respond to unplanned events, good or bad, is a prime indicator of its ability to compete.
- Strategically an important function of the chief executive is to look for bad news and to encourage the organisation to respond to it. Employees must be encouraged to share bad news as readily as good news.
- The flatter the corporate hierarchy, the more likely it is that employees will communicate bad news and act upon it.
- Personal initiative and responsibility thrive in an environment that fosters discussion.
- Reward worthy failure – experimentation.

Diagnosing your Digital Nervous System

- Do your digital systems enable you to learn about bad news anywhere in the company and to communicate it quickly?
- Do your digital systems enable you to assemble the necessary data and to get teams working on solutions quickly?
- Can you put together virtual teams from separate departments and locations?

MEDIA BERTELSMANN

Moving on to the global stage

John Gapper and **Frederick Stüdemann** on the German media group's plans to expand in the US

When shares in barnesandnoble.com, the internet bookshop, were offered to the public yesterday, Bertelsmann gained a much-needed tool. The German media group knows that if it is to keep expanding in the US, it must have some highly valued shares to wield.

"Amazon.com uses its shares to acquire other companies. We need to compete with the same weapons as the other side," says Thomas Middelhoff, Bertelsmann's chief executive. It bought 50 per cent of barnesandnoble.com for $200m last year, and was aiming to sell up to about 10 per cent in the offering.

Expansion in the US has become an even higher priority for Bertelsmann since Mr Middelhoff took charge last November. He was best-known before that for persuading the private company to invest $50m in 5 per cent of America Online in 1995 – a stake that would today cost $4.2bn.

Bertelsmann certainly has the size to compete on the global stage with News Corporation and the other US giants. Not only is its Gruner + Jahr magazine division powerful in the largest European market, but its book and music divisions are strong across Europe and in the US market.

Pearson, which owns the Financial Times, is a co-investor in Channel Five in the UK with CLT-Ufa, the broadcasting arm of Bertelsmann. Gruner + Jahr is also launching a new German language business newspaper with Pearson, which will draw on the editorial content of the FT.

Bertelsmann's agility is another matter. It is privately owned, and has stuck to its own deliberate pace of development rather than copying the headlong pace of News Corporation.

Having bought the US book publisher Random House for $1.1bn last year, and spent DM1bn ($559m) on the specialist publishing group Springer, Bertelsmann is at its self-imposed cap for debt. It limits debt to 1.5 times its annual cash flow, and it currently has about DM3.5bn debt compared with DM2bn of cash flow.

Yet the company has a comparatively old-fashioned mix of operations for a global media group. Although it is one of the "big five" music companies, it has neither a film studio nor a television network in the US, and instead spent the bulk of its money in the US on buying Random House.

The most obvious way to correct this bias would be to buy a Hollywood studio to match Viacom's Paramount, and News Corp's Fox. But Mr Middelhoff says he is unconvinced, arguing that investments in terrestrial television through CLT-Ufa are more valuable.

"I am not interested in investing in Hollywood. Why should I buy a studio for a lot of money? Sometimes I wonder what the impact of Hollywood movies will be in five or 10 years' time," he says. Instead, he says European broadcasters should invest in productions for local audiences.

He displays more interest in another possibility – buying a US television network. But US regulations preclude a European company holding more than 24.9 per cent of a network. "It is something we must discuss carefully and confidentially with the administration in Washington," he says.

Bertelsmann has at least one argument on its side: the Vox German channel, in which CLT-Ufa holds 25 per cent, is 49 per cent owned by News Corporation. Mr Middelhoff points out that the US is more restrictive than Germany about foreign holdings of television networks.

It is privately owned, and has stuck to its own deliberate pace of development

Furthermore, networks such as NBC, owned by General Electric, and CBS, are widely seen as for sale at the right price. But it could be hard to justify the acquisition of a network by itself given that most broadcast advertising revenues now flow from the network's affiliate stations.

Mr Middelhoff reserves the most open enthusiasm for the internet and electronic commerce, which he says suit the traditions of Bertelsmann well. The company was rebuilt after the war by Reinhard Mohn, a Bertelsmann family member, with subscription-based book clubs.

"That is our chance. Maybe you think he's wrong to compare old and dusty book clubs with the internet. No, no. You can do it," he insists, pointing out that both depend on building up a subscriber base. "It sounds amazing, but it is true. AOL is not so far away from managing a book club."

Indeed, he believes Bertelsmann could outflank Amazon in Europe in the way it manages its Books Online venture, which has been launched in France and Germany. Books Online is to stock 4.5m titles, and will offer music CDs and video online just as Amazon.com does.

Bertelsmann can aim at subscribers more effectively than Amazon through techniques developed in book clubs, he argues. "I believe Amazon's objective is to be a warehouse on the net with hundreds of thousands of articles. That is OK, but it allow us to make targeted offers," he says.

One thing Mr Middelhoff does admit to envying in youthful internet companies is a single technology platform. The group is decentralised, with companies such as CLT-Ufa given their head. But as he points out, "it makes no sense to have a company with 12 different e-mail systems".

Just as hard will be building a coherent internet business in the US out of its various stakes. While broadcast networks and traditional media companies have been trying to link with internet companies, Bertelsmann has relatively few cards to play on either side of this divide.

But the barnesandnoble.com initial public offering is at least a start, and the company has a chief executive with a network of useful US contacts. As the conversation ends, his secretary brings Mr Middelhof a note. "Ah, Bill Gates. It's the third time he's tried to reach me," he says.

Middelhoff: 'I am not interested in investing in Hollywood'

DAVID BOWEN
WEB SITE INSPECTION

Bumpy ride to buy a car

Poor site navigation in the US and legal restrictions in Europe are slowing customers down

It's spring: time to rush out and buy a new car. Or perhaps to stay in and buy one. Given how easy it is to buy a computer on the web, why can't we do the same with a car?

We can, up to a point. A few motor manufacturers let us start the process of buying online. But none of them allows us to finish it – we are always directed to a dealer, even though they could theoretically be overtaken by companies selling direct.

Will this ever happen? In Europe, the motor trade's "block exemption" from normal European Union competition rules make it unattractive for manufacturers to sell direct. Even so, Volvo is firing a warning shot with its Belgian site. Clicking on a model brings up a window that takes you through the configuring process: choose your colour scheme, options, engine and financing scheme, and send an e-mail to a dealer saying this is what you want.

The system is not particularly easy to use, and is incomplete: under "options", you get a printable document telling you what the choices are, but no way of selecting them interactively. The site, however, looks good: it carries details of the different models and it should be working well by the time block exemption is lifted, probably in 2002.

In the US, General Motors' new BuyPower site is impressive. First, choose a model by looking at its features and comparing them with other cars using an (independently provided) head-to-head system. Select your options and colour scheme. Put in your Zip code to find the dealer nearest you, and see which cars fit your needs. Exact matches are shown in red, with near-matches in black, a clever trick for a literal-minded computer.

Then click to bring up the "window sticker" – the specification of that particular car – and get a financing quote online. Finally, send an e-mail asking the dealer for a test drive, what his "best price" is, or reserving the car.

BuyPower is let down by its navigation. I found myself stuck several times, unable to go back a step and so having to start again. This problem is associated with heavy use of "frames," and will make many people give up.

In real car showrooms you are led through the choosing, financing and paying process by sales people who will do their utmost to make sure you do not give up. On the web there is no one to chivvy you, so unless the buying process is simple, you could easily call a halt.

This is not, however, going to stop BuyPower generating a pile of business. The question GM's dealers must be asking is whether it is an end in itself, or just the first step towards direct selling?

Volvo Belgium
www.volvocars.volvo.be
Overall ***
Design ****
Navigation ***

GM BuyPower
www.gmbuypower.com
Overall ****
Design ***
Navigation **

The 71st batch of Oscars will be given away on Sunday, and I have been poking about the official site. It has plenty of good stuff, including a list of all the nominees. A search engine will locate them by film, song title, or actor. The history section is good, too, giving a dose of glory to the sound-effect and make-up people as well as the stars.

Three things struck me. First, the streaming video film clips work well at times, but not at others. These allow you to see a clip in a box the size of a large postage stamp without waiting for it to download on to your hard disk.

Second, the site has banner advertisements everywhere, and no opportunity to sell a poster or video is missed. This seems reasonable, and does not detract from the fun.

Third, it is extremely American. Yes, it is the US Academy of Motion Pictures, Arts and Sciences, but the Oscars really are global. The site has details of Oscar parties and the television show, but these are only of interest if you are in the US. Everyone knows the internet is dominated by the US but it would nice to feel that Americans realise that we funny foreigners use it too.

www.oscar.com
Overall ****
Design ***
Navigation ****

More proof that the web is a bastion of free enterprise. Type in *www.lewinsky.com*, and you get a commercial porn site ("purchased from the previous owner, the Lewinsky bookstore, and not associated with anyone named Lewinsky"). Try *www.monica.com*, and someone called Jim is asking for "serious offers" for the address. We must surely soon get an electronic market in domain names. I'd guess there would be a fairly heavy discount on three-month Monica.com.

David Bowen is editor of Net Profit newsletter (www.net-profit.co.uk; info@net-profit.co.uk)

COMMENT & ANALYSIS

PHILIP STEPHENS

European malaise

The lack of accountability within the EU's institutions is not an oversight: it reflects a deliberate choice by member governments

Whenever they are uncomfortable about the big issues, politicians can always seek refuge in the small ones. This is what has been happening this week in the European Union. The hapless Jacques Santer and the haughty Edith Cresson have been tried, convicted and sentenced. Europe, we are told, had been reborn. Nonsense. The slaughter of the bureaucrats merely holds a mirror to Europe's real malaise.

I hold no brief for Mr Santer, the departing Commission president. Nor for Mrs Cresson or the other high functionaries taken to task by the independent report into the workings of the Brussels Commission. Mrs Cresson's appointment of her septuagenarian dentist to a Commission sinecure speaks for itself. Her loss is the Union's gain.

Elsewhere, though, the report's damning final judgment overstates the substance of the charges laid against Mr Santer. Stripped of a rash of emotive phrases about democracy and accountability, it seems to say that the Commission president is an ineffectual sort of chap, prone to bouts of vacillation. I don't call that news. If only Mr Santer had moved earlier against the Grande Dame and her orthodontic adviser he surely would have survived.

We should also recall that this particular college of 20 commissioners is the creature of the national governments that appointed it. If it is populated, with some notable exceptions, by the flotsam and jetsam of national politics, then that is as decreed. Governments got what they asked for.

Think back. As I recall, Mr Santer was not chosen for his vision, his strength of character or his proven leadership. Exhausted by the manic energy of Jacques Delors during his tenure at the top of the Brussels executive, governments opted for a quieter life. Their first choice was Belgium's Jean-Luc Dehaene. He was vetoed by Britain's John Major. It was but a small step to declare Luxembourg's Mr Santer the man for the millennium.

And if Commissioners have a habit of appointing friends and families to their staff, they have only been emulating their political masters. Jobs at the Commission have always been reserved for national governments on the basis of Buggins' turn. As an institution, the Commission is about as meritocratic as Britain's soon-to-be-reformed House of Lords. The adage about stones and glasshouses springs to mind.

The deeper truth, though, is that the power vacuum in Brussels is emblematic of a strategic paralysis across the Union. For all the fanfare over the euro, it is ever clearer that EU governments have little clue where they are, or should be, heading. The Commission has been rudderless largely because the Union itself has been navigating without a compass.

Unsurprisingly, Germany's preoccupation has been with unification and more recently with a sickening economy. The election of Gerhard Schröder, the first representative of a generation without personal memory of the war, promised a change of gear. Six months on, Mr Schröder has yet to articulate a direction for Germany, let alone for Europe.

France, vexed by the new uncertainties in its relationship with Bonn (soon to be with the more distant Berlin), is searching for a role to replace that of Cold War interlocutor between West and East. Italy may provide a new president for the Commission but is otherwise ever introspective. Britain is in improving shape but still puzzles over its place in the world. It was soaked in Euroscepticism for a decade. Tony Blair needs time to persuade it that the future lies in Europe.

The Union, I suppose, would argue in its defence that it has made a reality of economic and monetary union. But this was a process largely pre-programmed by the Maastricht Treaty. Paradoxically, it was almost easier to complete than to abandon. Look around at the new challenges and the characteristic response is inertia.

Take enlargement. Next week's Berlin summit is supposed to agree at last on the financial framework needed to open the door to the east. Perhaps it will succeed. The process after all has taken the best part of a decade. But even now you can detect a shameless hope that the débâcle in Brussels will further extend the timetable. And as for the scope and purpose of enlargement, to put the question in different EU capitals is to find almost as many answers as there are applicant countries.

The point is made well in an essay published by the Centre for European Reform, a British (and Blairite) think-tank*. Gilles Andréani, a French foreign policy adviser, reminds us that the fall of the Berlin Wall robbed the Union of its geopolitical landmarks. The EU suddenly found itself part of a continent without definition.

Does it, should it, extend to that part of Russia west of the Urals? Maybe. What logic sees the Baltic states as natural EU applicants but then excludes the former Soviet Union's western republics? And what of Turkey? If geography offers an inadequate guide, can the Union's boundaries be redrawn around political institutions and culture? With great difficulty. Such questions lie at the heart of the future character of the Union. Governments prefer to wish them away.

Just as they cannot decide on its geographical limits, the EU's leaders have lost confidence in their prospectus for today's Union. The euro, it is sometimes said, has transformed it into an economic superpower. Tell that to the US as it watches the Europeans squabble among themselves over who should say what at meetings of the Group of Seven industrial nations.

As for political union, it has become a mantra almost without meaning. As Mr Andréani points out, the Maastricht and Amsterdam Treaties adorned the EU with some of the symbols of political sovereignty. But the substance of defence, foreign, immigration and judicial policies has remained with the nation-states. That is where it will stay. Only the Eurosceptics now guard the myth of a headlong rush into a single European superstate.

And here lies the irony of the Commission's fate. The patent lack of accountability and democracy within the EU's institutions is not some accident of history. It reflects a conscious choice on the part of governments. For all the grand rhetoric about political union, the EU's prime ministers and presidents want to reserve for themselves the key levers of political decision-making.

To extend democracy to the Commission (by allowing, for example, the EU's citizens to elect the president), or to increase further the powers of the European Parliament, would be to transfer to the Union the political legitimacy that governments want to keep for themselves.

These are tensions and contradictions that the Union's leaders are unwilling or unable to confront. It is so much easier to make a scapegoat of Mr Santer and his colleagues than to make sense of the unique and often awkward set of relationships on which the Union has been built.

No doubt Mr Blair is right when he says that the Brussels bureaucracy can be reformed and reshaped. But ultimately Europe's leaders cannot escape a simple truth: to look at the Commission is to see themselves in the mirror.

* *Europe's Uncertain Identity, by Gilles Andréani, price £5, Centre for European Reform, London*

LETTERS TO THE EDITOR

Flexible approach with unions

From Mr John Monks.

Sir, David Wighton reports that the government is considering changes to record keeping requirements under the Working Time Regulations ("Employment bill may be watered down," March 16).

Employers have been complaining about the regulations since last October when the introduction of the directive seemed to take many by surprise. It should not have done as the European Court of Justice in 1996 ruled that the 1993 directive must apply to Britain.

The TUC does not support over-complex regulations. It is in our interests to make health and safety and family friendly employment measures as easy to implement as possible.

But our suspicion is that much employer complaint is really directed at the directive itself. What they are really saying to government is "we want to act exactly as we did before the directive came into force". Men in the UK will still work longer than anywhere else in Europe if they succeed.

But the directive and subsequent regulations are complicated because they contain numerous opt-outs and loopholes inserted as a result of this employer lobbying. Other European countries rightly insisted on the requirement to keep accurate and detailed records of those working more than an average of 48 hours.

But there is an alternative approach based on flexibility through collective agreements. The law gives employers a basic choice: They can either deal individually with employees or collectively with their workforce. If they choose the individual route they have to accept that the law recognises that the power will always lie with the employer and that the employee must have basic forms of protection. If they choose to deal collectively then more flexibility is possible.

More employers in the UK should recognise that partnership with unions is key to getting on with the job of tackling the UK's productivity and competitiveness deficits.

John Monks,
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Employment effects of end to duty-free limited

From Mr David Wyllie.

Sir, Gerd Mortensen (Letters, March 16) is misinformed about the opposition among EU member states to a change in the unanimous decision already taken by the 15 countries to end duty-free arrangements this July. Not only the Danes but also the Dutch and Belgian governments still firmly favour the decision and the same is said of Italy, Portugal and Finland, next holder of the EU presidency.

This level of support is technically enough to sustain the decision. The well-funded pro duty-free lobby has, however, persuaded the governments of many EU voters, including the British government, to put it in question. Before someone contends that their arguments justify reversing or qualifying the decision at the highest political level, please point out two facts:

● Duty-free goods are commonly sold at higher-than-High Street prices (the point is confirmed in the study made last month by the Commission for the Heads of State);

● Since the main alleged price advantages governments are being lobbied to preserve for the minority who make these purchases are on tobacco and alcohol, to prolong the regime is a straightforward contradiction of health policies.

Without going into details, the harm to employment, highlighted by Mr Mortensen in relation to the "long-term interests" of Denmark, can at least as convincingly be analysed as short term, and certainly able to be handled by the measures already on the table to help those directly affected.

David Wyllie,
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1000 Brussels

Partnership with schools

From Lord Wallace of Saltaire.

Sir, I was fascinated by the article (Weekend, March 13/14) on the links which so many City of London livery companies have with secondary schools.

The future of London as a financial centre partly depends on the quality of its workforce. Most children in London go to state schools; and most London state schools are desperately short of resources. Could not each livery company adopt one or more London state secondary schools, within the inner boroughs, on the same basis as they sponsor private schools around the country? Such a scheme would do a great deal to demonstrate the City's commitment to the future of London as a whole.

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PERSONAL VIEW LAWRENCE LINDSEY

Invading financial privacy

Proposed new rules upset the balance between fighting crime and the right to privacy

While most of us are focused on the technological problems of the year 2000, we have forgotten about a much older technological threat to our way of life: 1984. Since the fall of the Berlin Wall, the prospect of living in an Orwellian nightmare has receded. But the technological capability of government to monitor our every move has proceeded apace. Today, free peoples on both sides of the Atlantic are confronting government bureaucracies intent on shrinking financial privacy still further.

In Europe, governments are seeking to develop continental monitoring of bank deposits. The targets are the tax havens of Europe which do not co-operate in reporting interest earnings to foreign governments.

Fiscal policy needs and the enforcement of tax laws are tough to argue against. But Europeans should not expect governments to rest satisfied once they have collected all taxes due. In America, we already have universal reporting of all interest earnings over $10 to the Internal Revenue Service. But the American bureaucracy remains un-appeased. The government is asking for round-the-clock monitoring on the use of bank accounts and for the banks to report any "suspicious activity" to the authorities.

In question are proposed regulations euphemistically known as "Know Your Customer Rules". In the electronic age, it is not enough for a banker to know merely that this is Joe, the car dealer down the street. Under the new rules, the bank would have to develop a computer model of Joe's transaction patterns. If there is any deposit or withdrawal that is outside of those patterns, Joe would become a suspect to be reported to the financial regulators. The banker may have known Joe since childhood, but that isn't good enough. After all, if Joe does something statistically abnormal, the bureaucrats assert that he may well be a money launderer.

As a former regulator, I can understand the frustration of those who must enforce the law. It is very difficult to catch and convict those who deal in illegal narcotics. First hand witnesses are difficult to find and often tainted. Undercover operations are dangerous.

But most of these crimes involve the use of money. Money, if it enters the normal payment system, leaves a trail. That trail does not grow cold: the transaction is recorded electronically and is seldom erased. If you can track the money, you can often find the criminal.

This can lead one step further. If you can track all transactions, you might be able to detect money flows attached to crimes you otherwise didn't even know occurred. Most drug deals, for example, are unknown to the authorities. But track the money and you may be able to arrest criminals who committed crimes that went unreported and otherwise left no trail.

Logic that amounts to 'criminals use money, therefore the use of money should be suspect' sounds somewhat Orwellian

This brings us to "Know Your Customer" rules. In theory, if the authorities could monitor every transaction in the economy and apply enough computer power to them, the conviction rate might rise significantly. It is difficult to criticise this logic without being labeled a defender of criminal activity. But logic that amounts to "criminals use money, therefore the use of money should be suspect", sounds somewhat Orwellian.

The degree of reasonableness of current search operations is highlighted by the data. The government has long demanded the filing of Currency Transaction Reports when large amounts of cash are deposited. Between 1987 and 1995 banks filed some 77m of these reports. These led to 3,000 money laundering cases and 580 guilty verdicts. A ratio of 25,000 reports to one case brought and 0.2 convictions, recalls the proverbial needle in a haystack, and an enforcement procedure which is somewhat less than efficacious.

To refine this procedure, the government ordered the banks to decide whether a given currency deposit was "suspicious". In 1993, 63,000 of 10.2m currency transaction reports were so labeled. This 0.6 percent share produced a 1 per cent rate of criminal charges, a significant improvement. The banks had produced an important degree of filtering for the law enforcement professionals. It was therefore the regulators' hope that a more sophisticated screening of the data would produce an even more efficacious ratio of "suspicious" to "probable cause" than 100 to one. Hence the requirement that banks model all their customers' transactions could conceivably be advanced as making government more efficient, not more nosy.

But the American public does not seem to see it that way. The volume of public comments on this proposal has reached unprecedented levels: there have been more than 100,000 protests (against fewer than 20 comments in support). Congressmen are protesting and the topic has reached the talk shows. With this volume of protest, it would seem unlikely that the rule will actually be promulgated. If it is stopped, it would be the first time the public has successfully said: when it comes to invasions of financial privacy, enough is enough.

The difficulty of striking a balance between stopping criminals and safeguarding privacy is not a new one. America's founding fathers faced a similar dilemma, and it is interesting to recall how they saw the balance when they wrote the fourth amendment: "The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation and particularly describing the place to be searched and the persons or things to be seized."

The presumption was that a search warrant was to be issued, and that it be specific about who was being searched and what information was to be seized. It would seem to be clear that the current money laundering enforcement practices are the kind of blanket search that the writers of the constitution sought to prohibit. Somehow "probable cause" does not seem to mesh with the one in 25,000 odds that the currency transactions reports provide.

The reason all of this has passed constitutional muster may say more about the circumscription of our privacy than we care to admit. The government has argued with a straight face that it is not carrying out the search – the banks are. In examples such as the currency transaction reports, the government claims that all it is doing is requiring an informational document from entities that is, banks) which it has the power to regulate.

In such cases, freedom has been buried under the kind of convoluted reading of plain English that George Orwell warned about. It was left to a woman in a depressed neighbourhood to give me the plain English about what is going on. As a Fed Governor, I was visiting the opening of a bank branch in a neighbourhood that hadn't had one in many years. The had brought in cash she had saved over many years for the down payment on her home and was immediately caught up in the "suspicious" transaction enforcement web. She eventually got her home. But her remark about the process will always stay with me. "You people in Washington think we're all criminals, don't you?" I had no answer to give her.

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COMMENT & ANALYSIS

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A steely threat to free trade

The vote by the US House of Representatives to limit steel imports, in violation of World Trade Organisation rules, is a warning shot that will be heard around the world. It does not mean the US is closing its market – yet. But it is a clear signal to Bill Clinton, and to America's trade partners, that they should prepare for trouble ahead.

The proposal seems unlikely to become law. Even if it passes the Senate, the White House has said it will veto it. But the overwhelming vote in favour of the bill – despite that threat and against the advice of Republican leaders – shows just how fragile support for free trade has become on Capitol Hill.

The House's action is in part due to energetic lobbying by steel producers struggling against competition from cheap imports. But it is also a vote of no confidence in Mr Clinton's approach to trade policy. The blame is largely his. Although instinctively opposed to protectionism, his failure to communicate his convictions effectively, and expend the necessary political capital, has left him waging an increasingly rearguard battle.

For much of Mr Clinton's first term, US trade policy lurched between mercantilism and unilateralism. His request for fast-track trade authority foundered 18 months ago because he never explained adequately why he wanted it and did too little, too late, to campaign for it. Lacking strong White House leadership, the powerful US business lobbies that normally champion free trade laid down their arms.

Such inconsistencies have weakened Mr Clinton's ability to set the trade agenda and exposed him to pressure from hardliners in Congress. That is deeply worrying at a time when global economic recovery hinges on keeping the US market open, and when the sudden power vacuum in Brussels threatens to aggravate conflicts over issues such as bananas and beef. Any slowdown in US growth would make the situation still more precarious.

Mr Clinton needs quickly to regain control of events. He should do so by using all his persuasive powers to articulate the case for free trade. He should say that although it can cost jobs, it creates many more; that cheap imports enhance the competitiveness of US producers; that respecting WTO commitments is essential to global stability; and that erecting trade barriers would risk setting off a chain reaction of protectionism worldwide, which would leave Americans much poorer.

Delivering that message will require courage. It may not be popular with many Democratic party supporters, particularly the unions. Yet unless Mr Clinton firmly stakes out his position, he risks increasingly being left to the mercy of events.

But America's trade partners, above all Europe and Japan, must also play their part, by heeding more attentively US calls to do more to assist global recovery by increasing imports. The required actions are mainly in the field of macro-economic policy and deregulation, rather than trade. But as US officials have repeatedly warned, failure to take them quickly would risk turning last year's financial crisis into this year's trade crisis.

ECB's limits

The European Central Bank's latest monthly bulletin delivered a stinging rebuke to European governments, criticising them for making slow progress on fiscal consolidation. Its views may well be justified – but its attempts to influence governments are not.

A central bank clearly has to take the fiscal policy stance into account when setting monetary policy. So it is quite acceptable for the ECB to include in its bulletin an analysis of the impact of past and future budgetary actions on the overall economic outlook. Quite reasonable, too, for it to assess whether budget deficits are likely to hit the critical 3 per cent boundary.

But the ECB has gone much further than this. Not only did it heavily criticise European governments' 1998 and 1999 budgets for failing to deliver on fiscal reform. It also gave its views on whether deficit reductions should come from revenue rises or expenditure cuts; said that government debt remained "too high"; and made a bald statement that the European governments' tax take as a proportion of output is too large, creating "substantial disincentives" to economic activity. For good measure, it added that the current "favourable" economic climate would only mean more jobs if structural reforms were addressed.

Much (though perhaps not all) of this is true. But it is not the ECB's job to say so. Although individuals are entitled to their opinions, it is quite a different thing for the ECB to express its opinion on such intensely political matters, as an institution. Fiscal policy and structural reform are the business of national governments, not the central bank. Inevitably, the ECB's criticisms also reinforce widespread fears that the European economic policy process is over-politicised: Oskar Lafontaine tried (ineffectively) to influence the ECB; and now the ECB looks, in turn, as if it is trying unduly to influence the politicians.

If the ECB is truly worried about an imbalance between monetary and fiscal policy, then it should make a serious effort to co-ordinate policy with national governments. But the euro-zone is not in that position. European deficits still fell by 0.2 percentage points in 1998, and this after a lengthy period of fiscal consolidation. The situation is not critical enough to justify the intervention of the central bank. Unless and until it is, the ECB should concentrate on the conduct of monetary policy – and leave the politics to elected politicians and the public.

Israel's courts

When a country is able to bring corrupt public figures to book in its courts, it is normally the sign of a healthy polity. But this is not the impression left by the conviction in Jerusalem this week of one of Israel's leading politicians, Aryeh Deri.

Mr Deri is the charismatic leader of Shas, an ultra-Orthodox religious party representing the Sephardim, Jews from North Africa and the Middle East. After a nine-year investigation, he was convicted of bribery, aggravated fraud and breach of public trust. So far, so banal. Mr Deri's judges, however, along with the head of the Supreme Court, are under armed guard. More alarming still, some senior ministers are guilty of denigrating the courts at a time when the rule of law itself is under fierce challenge.

As but the most egregious example, Eli Suissa, the interior minister (and a Shas colleague of Mr Deri), said he might have accepted the verdict had the judges been "three angels" rather than "flesh and blood". That not being the case, the head of Israeli law enforcement said: "I don't have to accept what they say."

Only a day earlier Tsahi Hanegbi, the justice minister and a member of Prime Minister Benjamin Netanyahu's rightwing Likud party, rubbished the State Comptroller's five-year investigation into a military accident. This exonerated Ehud Barak, then army chief of staff and now leader of the Labour opposition challenging Mr Netanyahu, yet the justice minister demanded Mr Barak "retire from public life".

There is more to this than politicking ahead of the general election on May 17. The ultra-Orthodox parties, dreaming of replacing democracy with theocracy, are vital to the coalition calculations of Likud and Labour. They have consequently gained more power than their minority status deserves. Israel's secular leaders, moreover, seem reluctant to defend the courts.

Mr Netanyahu bears a lot of the blame, for his rabble-rousing attacks on the "elites" – courts, army, academia, media – traditionally dominated by Ashkenazim (Jews from Europe) linked to Labour. Avigdor Lieberman, his former chief aide, has even set up a new Russian immigrant party, with strong fascist overtones, that overtly incites feeling against the justice system.

Such attitudes to the rule of law, whether cavalier or confrontational, are poisoning Israeli democracy, the defence of which requires all Israeli leaders to uphold the courts' right to act for all of society.

Breaking up is hard to do

Management theorists claim that demergers are an excellent way to "unlock shareholder value" in conglomerates and large companies. Not always, says Tony Jackson

The vogue for corporate break-ups is alive and well on both sides of the Atlantic. Two weeks ago Hewlett Packard said it would spin off the instruments business on which it was founded. This week Tarmac, the venerable UK construction company, said it would split its construction and aggregate divisions.

The market reaction was instructive. Hewlett Packard's shares twitched briefly, then subsided. Tarmac's rose by less than 1 per cent.

Perhaps these companies should count themselves lucky. Six months ago, Du Pont spun off its oil subsidiary Conoco. Since then the shares of both Conoco and Du Pont have underperformed the US market by around 20 per cent.

Or take Minnesota Mining and Manufacturing, which in 1995 spun off its imaging and data storage business under the name Imation. Since then 3M's shares have underperformed the market by 40 per cent and Imation's by a gruesome 70 per cent.

It was not supposed to be like this. In recent years, it has become a management axiom that focus pays: that when businesses are freed from the stifling influence of head office, they burst into entrepreneurial vigour. The multi-business company, we are told, is worth more dead than alive.

Each side of the Atlantic has its classic case. In 1992 Imperial Chemical Industries spun off Zeneca, its life sciences business. In 1995 AT&T did the same with Lucent, its equipment manufacturer. In both cases the child vastly outperformed its erstwhile parent, and shareholders were enriched accordingly.

Some would argue this is the natural order of things. The latest issue of the McKinsey Quarterly publishes research which claims that over the past decade, spin-offs have substantially outperformed the market.

Over that period, apparently, US spin-offs have risen in value by 27 per cent on average in their first two years of life, compared to an average market rise of 17 per cent. Similar outperformance is claimed for so-called carve-outs, whereby a minority stake in a subsidiary is sold to the public; though so-called tracking stocks (see below) have underperformed.

McKinsey gives some familiar arguments for the outperformance of spin-offs: new incentives to management through stock options, more strategic flexibility and so forth. It also proposes two market-related arguments: that spin-offs receive more coverage from analysts than before, and that they attract a new set of investors.

These two points are doubtful. Brokers' analysts do not have a monopoly of information; and it is naive to suppose that value lies undiscovered on the table until analysts point it out. Equally, it is not immediately obvious why a new set of investors should value a company more highly than the old ones.

More generally, it is debatable whether companies become more highly valued simply because they are more visible. Markets are simply not that inefficient. Spin-offs are worth more because they perform more efficiently – or less, as the case may be.

This brings us back to the question of why so many recent spin-offs have done so badly.

One possible answer applies to small companies. In recent years, the smaller companies are by market value, the less well their shares have tended to perform.

One example is the UK conglomerate Hillsdown, which had a market value of some £800m when it split into three six months ago. The three companies are now worth 10 per cent less in total, despite the market having risen 30 per cent in the interim: despite, too, one of the three having received a hostile bid this week, lifting its value by a third.

Then again, plenty of big spin-offs have done badly too. Thorn EMI of the UK, for example, was split up in 1996. EMI has since underperformed the market by over 50 per cent, as had Thorn by the time of its takeover last year.

The truth is perhaps more basic: there are good spin-offs and bad ones. Imation, when spun off from 3M, was an inherently weak business, and has stayed that way. The market was disappointed by the Hewlett Packard spin-off because it thought the break-up insufficiently radical.

Sometimes, the reasons are more specific. Lucent prospered because the spin-off allowed it to supply AT&T's competitors. The opposite happened at the US computer consultant EDS, formerly a tracker stock for General Motors. When it was spun off by the carmaker in 1996, it lost its advantage as GM's in-house supplier of computer services. Since then, it has halved against the market.

Any corporate fad will run its course. The demerger movement has had a more profitable run than most

Any corporate fad, given time, will run its course. The break-up movement has had a longer and more profitable run than most.

It represents, after all, the flip side of the management philosophy of the 1970s and 1980s. That was the age of the conglomerate, when managers prized diversity and were driven more by size than by shareholder value.

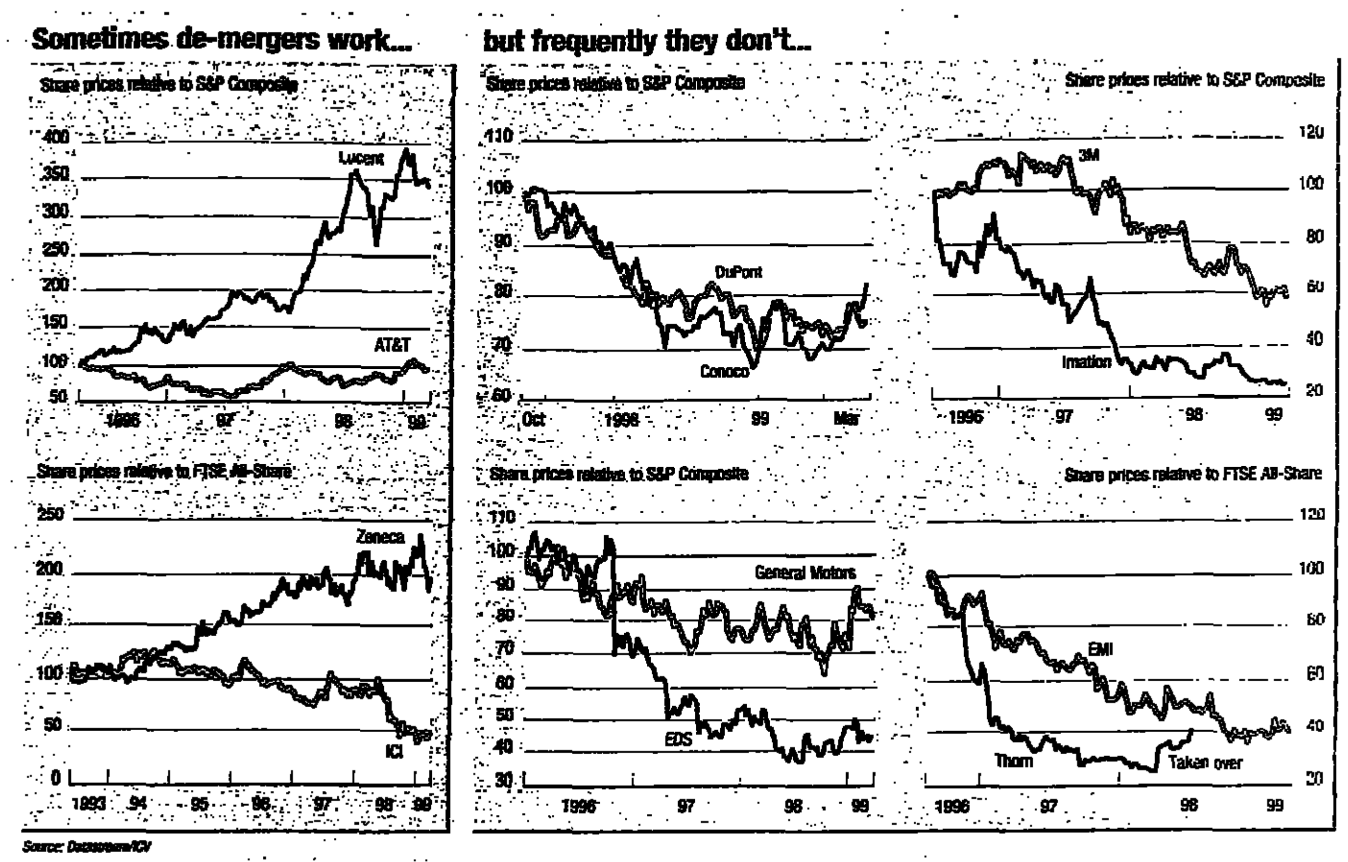
Undoing that has proved hugely beneficial. But the barrel, it seems, is almost empty. That does not mean there are no more break-ups to come.

The management academic Andrew Campbell points out that there are still plenty of companies whose head office has a smothering effect on the operating businesses.

As the smothering continues, and the share price declines, break-up becomes inevitable – even if the overall break-up sums may not look attractive at present.

In another sense, the break-up movement may only be due for a lull. This is, after all, the age of mergers: not only more numerous than before, but a great deal bigger. In each case, we are assured that the fit is perfect and the focus improved. Often this is, to put it politely, nonsense.

In five years or so, some of those vast new entities will be under strain. The world will have moved on, and cracks will appear in the corporate facade. To switch the metaphor, the barrel will be full again. Then the supply of good break-ups will resume: though not, perhaps, for the best of reasons.



Tracking your way up the charts

The latest trend on Wall Street may not deliver added value, says Richard Waters

When it comes to reaping the full value of their business, some US companies want to have their cake and eat it.

Faced with the choice of shedding assets or floating a minority stake on the stock market as a way of getting their share price up, some US companies have opted for a third way: issuing a tracking stock.

As the name suggests, these securities are designed to track the performance of various parts of a company's operations – even if the businesses themselves are still run together as part of an integrated whole, and even if the parts could not be spun off as a separate unit. Issued sporadically over the past decade, such securities have become more common, reflecting two concerns: One is the pressure on many bosses to keep coming up with ideas to maintain a rising share price at a time when earnings growth is slowing. The other is the financial strain, and the opportunity, created by the information revolution.

This week Donaldson Lufkin & Jenrette, the US investment bank, announced a tracking stock for its online stockbroking business. Last week a flagging DuPont was trying to persuade Wall Street to put a value on its life sciences business.

Lured by the high valuations of internet stocks, others are also likely to go down the DLJ route. The stock of Ziff Davis, a publisher of computer magazines, had been struggling until last autumn. Its decision to issue a tracking stock for its online business was sufficient to put a rocket under its share price.

The telecommunications industry has become a hotbed of such activity, reflecting the schizophrenia of companies that want to be seen both as growth stocks and the traditional dividend-paying utilities of an earlier era.

Sprint issued a tracking stock recently for its new mobile subsidiary, while US West, an early proponent, eventually took the ultimate step and split into separate telecoms and cable TV companies. AT&T was also set on a tracking stock after its merger with Telecommunications Inc but backed out after a jump in its share price made the move unnecessary.

Though purists have never been happy with the idea, early opposition has given way in recent years to grudging acceptance.

Most tracking stocks fly in the face of the American corporate governance revolution of the past decade: they do not confer ownership rights over assets or give shareholders direct influence over the business in which they theoretically invest. But besides rejecting a proposed tracking stock for the struggling retailer Kmart three years ago, shareholders have generally gone along with the idea.

"Some sort of action is normally better than none," says Patrick McGurn of Institutional Shareholder Services, a company that advises 500 institutions on corporate governance issues. Investors tend to "choke these things down and hope they don't do too badly".

To judge from the experience of early adherents such as USX, the steel, oil and chemicals group, the sum of the parts has not added up to more than the whole. According to Mr McGurn, tracking has yet to deliver long-term gains to shareholders.

OBSERVER

Bangemann Beggars Belief

Now that the European Commission has collapsed after revelations galore of fraud, nepotism and overpaid dentists, you might expect its members to be downcast.

But how wrong you'd be. It isn't just the prospect of three years at half of their generous pay that's keeping the commissioners' spirits buoyant.

Martin Bangemann, formerly Europe's main man on industry, claimed yesterday that he'd arranged the commission's collective jump overboard to clear his diary.

It was only the second time Bangemann had indulged in the Anglo-Saxon habit of starting a speech with a joke.

After the first, he said, an English friend told him that German jokes were not a laughing matter.

The portly commissioner, who will now have more time to sail his yacht, was careful not to break the rules which prevent criticism of the actions of any other commissioner.

Except on the commission's rules for importing bananas, which have managed to bring Europe to the brink of a trade war with the US that could bring cashmere sweaters, pecorino cheese and handbags into the fray.

The commission's line, Bangemann said, after clearing his throat, was "bullshit".

Observer is shocked. Whatever happened to collective responsibility or, come to that, covering up for your friends?

Prodigal nephew

There's an election this June in South Africa and politicians are jumping from party to party with a heroic lack of ideological discrimination.

Even so, the party which once brought the world apartheid pulled off a coup yesterday.

The New National party announced that the Reverend Daliwonga Mandela, President Nelson Mandela's nephew, had resigned from the ruling African National Congress. He's going to set up a branch of the NNP in the traditional ANC stronghold of the Eastern Cape.

The Rev Mandela was said to be appalled by violence and the loss of moral values in the new South Africa.

Uncle didn't say a word.

Sexism Slain

Japan's government was brimming with pride when it announced a new law to "prohibit" sex discrimination yesterday.

Only a couple of problems. Names of offenders will be published, but the government admits it can't enforce the law. And though victims will be able to take cases to court at their own expense, functionaries helpfully make clear any such process will take a "very long" time. Another great blow for equality.

Mining the net

Vancouver-based mining company Cornucopia Resources has found its horn of plenty looking pretty empty of late. There's been a devastating decline in the industry's funding, wails company boss Andrew Mulligan. Sometimes, he admits, it's looked like his company has been headed for that great mine-shaft in the sky.

So last autumn the company, which had a couple of promising but thirsty gold projects in Nevada, sold one project to fund the second. Now it is selling the second – but keeping small indirect stakes in both.

And its new business? Why, internet investment research of course. Unlikely though the move may sound, Cornucopia is merging with a company called Stockscape Technologies Limited.

It wants to raise C$2m to promote its grand new project. Investors may have gone cold on Cornucopia Resources, but, Mulligan reflects, they could barely refuse money to a company with a suitably bells-and-whistles name such as current favourite Stockscape.com, Inc.

And the craziest thing of all? He's probably right.

Pot luck

The fun-loving Swedish government, famed for its punitive taxes and strictly-controlled alcohol monopoly, is moving into gambling.

Yesterday, finance boss Erik Asbrink announced plans to open up to six state-controlled casinos, offering punters roulette, blackjack and crap dice, among other diversions.

For gaming addicts, a Baltic Las Vegas might sound like opening the brewery to alcoholics.

But Asbrink, who's got a highly developed social conscience, does not see it that way. "Social damage from gambling is not linked to casinos," he explains. Wanna bet?

Anguished Amoco

Disgruntled wits at Amoco, the US oil group taken over by BP, its British one-time rival, are taking out their angst at being underdogs on their own CEO.

The latest quip doing the rounds in Houston asks how underlings should address Sir John Browne, the former head of BP, and Larry Fuller, his counterpart at Amoco.

Easy, is the reply: Sir John, for the former, and Sir Render for the latter.

The Financial Times

50 years ago

Terms Of Atlantic Pact
Mr Ernest Bevin, the Foreign Secretary, announced in the House of Commons yesterday that full agreement had now been reached between the Governments of the US, the UK, France, Canada, Belgium, the Netherlands, Luxembourg and Norway on the proposed North Atlantic Pact. It is intended that the Pact, which has a Preamble and 14 Articles, shall be signed in Washington in the first week of April. Article 5, which is the key to the Pact, states that an armed attack against one or more of the parties in Europe or North America shall be considered an attack against them all. Mr Bevin told the House that the Pact was one of the greatest steps towards world peace which had been taken since the end of the First World War. He added that the Pact was purely a defensive arrangement for the common security of the countries who joined it and it was not directed against anyone. Mr Bevin's statement was warmly welcomed from all sides of the House. For the Conservatives, Mr R A Butler said that the only regret was that Mr Churchill was not present on this historic occasion in view of the initiative the Leader of the Opposition had taken.

FINANCIAL TIMES
FRIDAY MARCH 19 1999

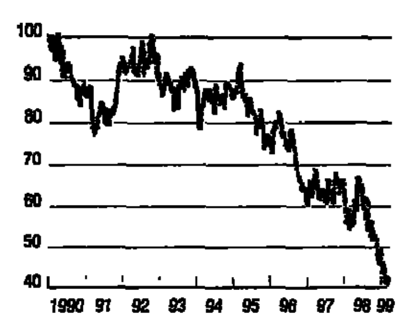
THE LEX COLUMN

Disappointing Deutsche

It has not been a good decade for Deutsche Bank. Europe's largest bank by market value in 1990, Deutsche now no longer ranks in its top 10. Yesterday's 3 per cent share price fall, on news of an unnecessarily large capital increase, takes its underperformance of the European banks index to 60 per cent. It has just *become smaller*, for example, than the UK's Abbey National, a quarter of its size in 1990. In a season of hostile bids – Olivetti's for Telecom Italia and Banque Nationale de Paris' for not one, but two French banks – Deutsche looks vulnerable. No wonder issuing DM2bn more equity than is needed to pay for Bankers Trust seems tempting.

Sadly, yesterday's results should give shareholders little confidence the share price rot has stopped. True, Deutsche's industrial holdings can now be managed more actively, which should release hidden value. And it is a small mercy it is not charging into France. But in its core business, Deutsche's cost/income ratio is heading in the wrong direction – rising *2.8 percentage points to 78.1 per cent.* The restructuring programme has yet to have any real effect in Germany where it is needed most. And on the revenue side, both net interest income and trading profit are down on the year. There is no doubt that Deutsche is cheap, and for good reason. *Its* strategy of doubling up in investment banking, where its record is weak, is unduly risky for a bank in its state.

Deutsche Bank
Share price relative to the FT/S&P European Banks index



Source: Datastream/ICV

Chase Manhattan

Chase Manhattan has emerged from last year's market turmoil looking more impressive than anyone expected. While investment bank earnings slumped, Chase's strong performance has been rewarded with a soaring share price – a strong currency with which to pursue its goal of buying one of the jewels of US investment banking.

But does the strategy of acquiring an investment bank make sense for a commercial bank? The overwhelming evidence of the last 10 years is that such acquisitions are doomed to failure. Chase has a strong record in executing mergers, but Chase/Chemical and Chemical/Manufacturers Hanover were far simpler exercises. *And above a minimum level of critical mass – already enjoyed by all* those on Chase's main wish-list of Morgan Stanley Dean Witter, Goldman Sachs and Merrill Lynch – extra bulk and capital are not an obvious advantage.

There is, though, an argument for doing a deal. *Chase still has holes to plug in corporate and investment banking* – notably equities, mergers and acquisitions, and international markets. Clearly, any such a deal would succeed or fail on management issues. If Chase could thrash out a convincing management structure – unlike Citigroup – and had the stomach *for a painful integration,* it might just pull it off. The market, though, would need to be convinced that its experience would really be different from that of previous followers of this path.

Olivetti/Telecom Italia

Olivetti has come up with a suitably aggressive industrial plan for Telecom Italia. Its promise to cut €2.3bn ($2.09bn) a year in costs is certainly more impressive than Telecom Italia's own plan, which envisages cost cutting of €800m. But, at present, that is largely besides the point. Because the bulk of Olivetti's intended offer is in cash and bonds, the benefits from wielding the axe would flow more to its shareholders than Telecom's.

There is, though, a puzzle here. Roberto Colannino, Olivetti's chief executive, is envisaging 13,000 job cuts in Telecom's core business and another 6,500 elsewhere, making roughly 20,000 in total. *Meanwhile, Telecom is looking at job* reductions of 40,000, of which half would be real cuts and the rest achieved through disposals. So on a like-for-like basis, it looks as though they are both going for around 20,000. *How come, then, that Mr Colannino is promising nearly three times* the savings that Franco Bernabe, his counterpart at Telecom, is pledging? The answer seems to be that Mr Bernabe does not consider Olivetti a real threat and so is unwilling to put his best foot forward. The same attitude is behind his refusal to gear up Telecom's balance sheet more aggressively.

At present, this may not matter. Olivetti's €10-a-share offer is unlikely to tempt many investors. But if Olivetti ups the bid, say by 20 per cent, Mr Bernabe's complacency could cost him dearly.

Axa

If France's banks wanted an example of how profitable a domestic merger can be, they need look no further than Axa. The insurance group, which took over UAP *about two years ago,* more than doubled its life assurance profits in France last year. Its efficiency drive included cutting 2,000 jobs and a radical overhaul of the salesforce's incentives. Such evidence that restructuring pays should not be lost on shareholders in Banque Nationale de *Paris* – of which *Axa is one* – and *Société* Générale.

Axa shareholders should, however, be relieved to hear that Claude Bébéar, chairman, is not wasting time acting as the "godfather" in the banking affair. Price wars in general insurance on the continent *do* not provide an easy background for Axa to hit its target of 15 per cent plus earnings growth. It has, of course, used some of its ample 1998 capital gains to top up reserves, helping to protect that precious profits growth trajectory in future years. Fresh momentum should also be provided in the UK and Germany by the acquisition of Guardian Royal Exchange.

And Axa is bound to keep on acquiring. Equitable, its US arm, could go for a US life assurance target: safe but probably expensive. Japan remains a tantalising prospect: cheap but dangerous. Meanwhile, a more obvious use of Axa's highly rated paper would be a continental move, such as building up its meagre presence *in southern Europe.*

Pressure on Serbs grows as Albanians sign Kosovo deal

By Robert Graham in Paris and Guy Dinmore in Belgrade

Pressure mounted on the Serbs yesterday to back a peace deal on war-torn Kosovo after the Albanian *delegation to crisis talks in Paris* formally signed the peace agreement.

Serbia's continued refusal to sign the deal, which would give limited autonomy to Kosovo and has been brokered by the six-nation Contact Group in Paris, could lead to a fresh ultimatum from the British and French chairmen of the talks.

Slobodan Milosevic, Yugoslav president, is expected to be given a week to back the agreement signed yesterday by Albanian Kosovars, who comprise the majority of the Kosovo population.

Belgrade's hardline stance also increased pressure on the Contact Group comprising Britain, France, Germany, Italy, Russia and the US to consider military action to force Serbia to back the accord.

Western *embassies* are preparing to evacuate their staff and families from Belgrade while Yugoslav army commanders are pledging a fight to the end with Nato.

But diplomats and sources close to the Serbian government said both sides were playing what amounted to a high-stakes game of poker, with neither *side* fixed on any course of action.

"Prepare for martyrdom in the service of the fatherland," Gen Dragoljub Ojdanic, chief of staff of the Yugoslav armed forces, was quoted as saying by B-92, an independent radio station.

Diplomats pointed out that Serb forces had considerably increased the size and sophistication of their military presence around Kosovo during the talks.

This was seen in Paris as a deliberate *provocation,* with Mr Milosevic still convinced he could rely on a combination of Russia's persistent opposition to the military option and Nato reluctance to take action.

Hashim Thaci, the leader of the Albanian delegation, last night *appealed to Serbs to sign* up "because it is in their interests as well as those of the Kosovars". He also *called on* Serbs *to* distance themselves from the Milosevic regime, saying that without greater democracy in Belgrade there was no hope of solving the conflict.

Miroslav Lazanski, military correspondent for Vecernje Novosti, a newspaper close to the regime, said that if attacked the Yugoslav army would *retaliate with all means* available – including its squadrons of MiG-29 fighters and short-range missiles.

Serbian military sources said Nato *targets* within range included some 10,000 troops in Macedonia preparing to enter *Kosovo as the proposed* peacekeeping force, ships in the Adriatic and troops based in Bosnia.

But two former senior members of Mr Milosevic's security forces said the army was unlikely to provoke Nato into what would be massive retaliation and that the Yugoslav president would call a halt after a first wave of western air strikes and agree to allow Nato into Kosovo to implement and enforce the autonomy agreement.

UN warns water shortages will raise prospect of wars

By Vanessa Houlder in London

Nearly a third of the world's population will face severe water shortages in 25 years' time, increasing the danger of war over water supplies, the United Nations said yesterday.

"Conflicts over water, both international and civil wars, threaten to become a key part of the 21st-century landscape," said Hans van Ginkel, UN under secretary-general.

Nearly all of the 3bn increase in global population expected by 2025 will be in developing countries, where water is often scarce or comes *in monsoons, hurricanes and floods,* draining off the land quickly.

Most available fresh water is found in developed countries, which have just a fifth of the world's population.

Research published this week by the International Water Management Institute, a research centre in Colombo, Sri Lanka, predicts "absolute water scarcity" in 17 countries in the Middle East, South Africa and the drier regions of western and south India and northern China.

Another 24 countries, mainly in sub-Saharan Africa, will suffer from extreme water scarcity. These are unlikely to be alleviated by water development projects because of a lack of funds.

Shortages are set to inflict particular damage on agriculture, which takes 70 per cent to 80 per cent of the world's available fresh supplies.

The World Commission on Water for the 21st Century, a newly formed think-tank supported by the United Nations and the World Bank, said that irrigated agriculture would *have to provide 70 per cent of the* increased food needed for the world's population in 2025.

But even if there was a steep increase in the efficiency of irrigation, the need for fresh water would expand by 17 per cent more than is currently available. If there are no changes, the demand would be for 56 per cent more water than is available today.

The UN says water shortages are *aggravated by pollution, inefficient* use and the unsustainable use of underground water in aquifers.

Water supplies are also damaged by inefficient and fragmented management, a reluctance to treat water as an economic as well as a public *good and inadequate recognition of* health and environment concerns.

The UN predicts a sharp increase in the number of deaths from water-related diseases from the current 5.3m deaths and 3.35bn cases of illness each year. About half the population of developing countries is suffering from diseases caused by contaminated water.

The World Health Organisation this week said water safety was a growing problem in Europe because of intensive agriculture, industrialisation and over-exploitation of resources.

One in seven Europeans, particularly those in eastern Europe, do not have access to safe water. "Medieval" diseases such as cholera, typhoid fever and hepatitis A are making a comeback, it said.

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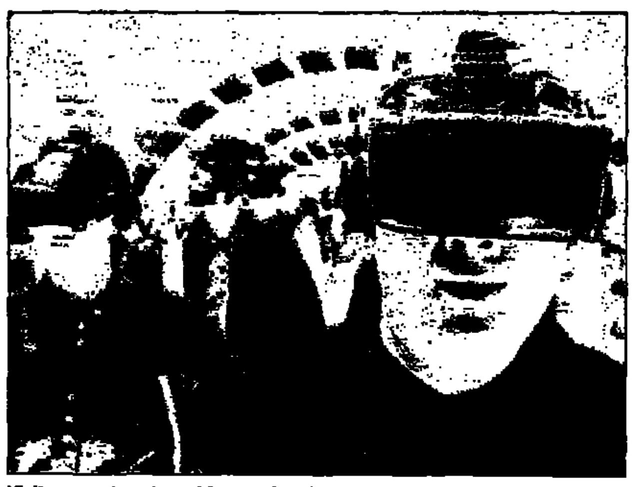

Visitors get to grips with virtual reality at the CeBIT computer fair which opened yesterday in Hanover, northern Germany. Page 27 Picture: AP

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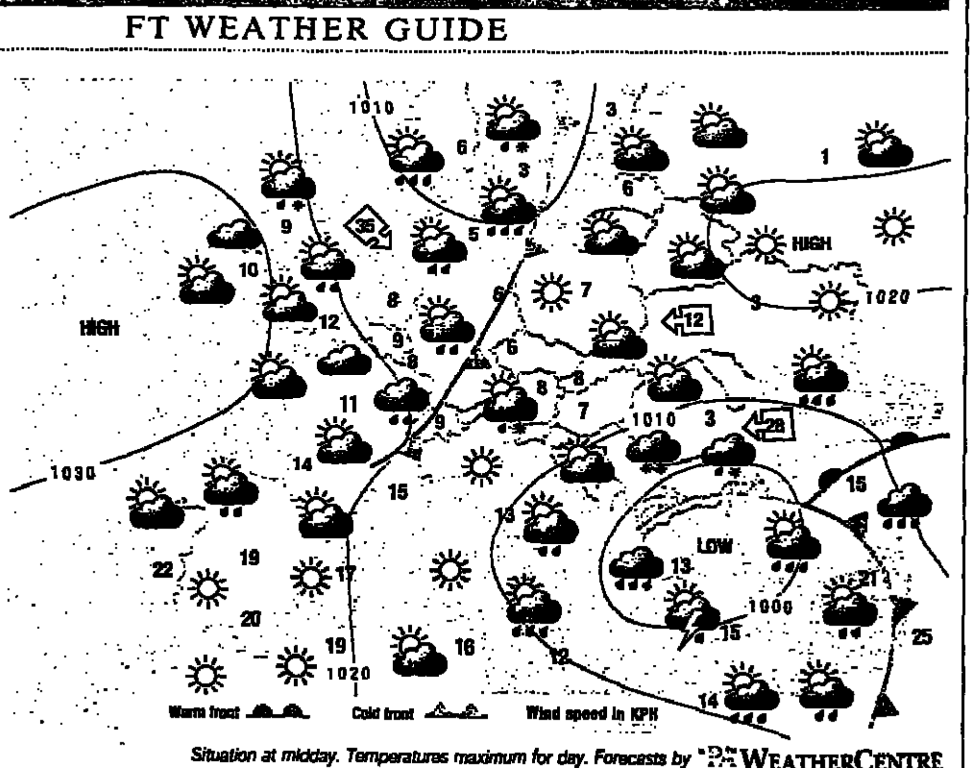
FT WEATHER GUIDE

Europe today

Spain and Portugal will be mostly sunny and warm, although the far north will have showers. Central and northern Italy will also be *quite sunny but southern Italy,* Greece and Cyprus will be very showery with local thunderstorms and some mountain snow. Eastern France, the Low countries, Germany and the northern Alps will be cooler with cloud and rain. *Western France should escape* and stay bright. Scandinavia will have sunshine and showers, with snow in the north. East and north-east Europe will be cold and it will snow in the eastern Balkans.

Five-day forecast

Much of Spain and Portugal will remain dry and bright with showers in the north. The central and eastern Mediterranean will be sunny with showers. Central and north-west Europe will be unset*tled and chilly,* although western France will stay fine.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

Maximum Celsius

City		°C
Abu Dhabi	Sun	26
Accra	Fair	32
Algiers	Fair	19
Amsterdam	Shower	9
Athens	Thunder	13
Atlanta	Sun	16
B. Aires	Fair	27
B.ham	Sun	11
Bangkok	Sun	35
Barcelona	Sun	17
Beijing	Fair	11
Belfast	Fair	10
Belgrade	Shower	6
Berlin	Shower	6
Bermuda	Fair	23
Bogota	Fair	20
Bombay	Sun	32
Brussels	Shower	9
Budapest	Fair	8
C.hagen	Hail	5
Cairo	Sun	27
Caracas	Fair	31
Cardiff	Sun	10
Casablanca	Sun	21
Chicago	Sun	11
Cologne	Shower	8
Dakar	Sun	25
Dallas	Rain	18
Delhi	Sun	33
Dubai	Sun	27
Dublin	Fair	10
Dubrovnik	Fair	13
Edinburgh	Fair	9
Faro	Sun	21
Frankfurt	Shower	8
Geneva	Fair	9
Gibraltar	Sun	21
Glasgow	Fair	9
Hamburg	Shower	7
Helsinki	Fair	3
Hong Kong	Fair	23
Honolulu	Sun	27
Istanbul	Shower	11
Jakarta	Thunder	32
Jersey	Fair	10
Johannesburg	Thunder	25
Karachi	Sun	30
Kuwait	Sun	26
L. Angeles	Shower	19
Las Palmas	Fair	22
Lima	Fair	27
Lisbon	Sun	22
London	Fair	12
Luxbourg	Fair	7
Lyon	Fair	11
Madeira	Fair	18
Madrid	Sun	19
Majorca	Sun	17
Malta	Shower	12
Manchester	Shower	9
Manila	Fair	32
Melbourne	Shower	25
Mexico City	Fair	24
Miami	Fair	28
Milan	Sun	12
Montreal	Snow	0
Moscow	Sun	-1
Munich	Shower	8
Nairobi	Fair	27
Naples	Shower	10
Nassau	Sun	27
New York	Fair	11
Nice	Sun	16
Nicosia	Fair	21
Oslo	Fair	8
Paris	Fair	11
Perth	Shower	28
Prague	Shower	6
Rangoon	Sun	35
Reykjavik	Snow	-1
Rio	Fair	29
Rome	Fair	13
S. Frsco	Rain	14
Seoul	Fair	18
Singapore	Shower	32
Stockholm	Shower	3
Strasbourg	Shower	10
Sydney	Fair	26
Tangier	Sun	21
Tel Aviv	Fair	25
Tokyo	Rain	20
Toronto	Fair	7
Vancouver	Fair	12
Venice	Sun	13
Vienna	Sun	8
Warsaw	Fair	7
Washington	Fair	15
Wellington	Fair	19
Winnipeg	Cloudy	10
Zurich	Fair	8

FINANCIAL TIMES

COMPANIES & MARKETS

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INSIDE

Turkey's industrials change focus
Koç and Sabanci, two of Turkey's conglomerates, are seeking to enter growth industries such as telecommunications and energy in a bid to defy the economic slowdown and liquidity squeeze that has put the survival of the country's industrials in doubt. Page 26

Foreigners move for Israel software
The acquisition by BMC Software of Houston of Israel's Dimension Software, was the biggest foreign acquisition of a local software company. But as more overseas groups move into Israel's software sector, it may become a subsidiary of Silicon Valley, and its companies may never mature into big players. Page 27

China Steel confident crisis is over
China Steel, Taiwan's biggest steel maker, saw a drop in year-on-year profits of more than 60 per cent in the first two months of 1999, but it remains confident that the worst effects of the Asian financial crisis have passed. Page 24

Liffe hits out at new futures rules
The London International Financial Futures and Options Exchange has criticised rules that would govern the access of non-US electronic futures exchanges to US customers. Brian Williamson, chairman (left) described the proposed rules as "obstructive". Liffe is developing an electronic trading platform, and is spending an estimated $5m on communications hubs in the US. Capital Markets, Page 32

Elections fail to move Estonia bourse
The parliamentary elections in Estonia barely moved the TALSE index. But investors remain confident that the three-party alliance will confirm Estonia's commitment to liberal economic policies and accession to the European Union. Emerging Market Focus, Page 44

Australian exploration funding to fall
Australian minerals and exploration expenditure is set to tumble 30 per cent to A$1.5bn (US$940m) this year, according to the Australian Bureau of Agricultural and Resources Economics (Abare), which said such a decline would not be easily reversed. Commodities, Page 34.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

Westland and Agusta to merge

Anglo-Italian helicopter venture will have 20% of market

By Alexander Nicoll in London and James Blitz in Rome

The consolidation of Europe's aerospace industry moved forward yesterday with an agreement to merge two helicopter manufacturers, GKN Westland of the UK and Agusta of Italy.

GKN, the UK engineering group, and Finmeccanica, the state-controlled company, have agreed to combine their helicopter interests into a joint venture that will have 20 per cent of the world market.

The deal was welcomed by George Robertson, UK defence secretary, who said: "There is an urgent need to restructure Europe's aerospace industry to ensure that it can compete effectively in global markets and contribute to the strengthening of European defence."

European governments are seeking rationalisation to compete with US rivals following the fall in defence spending since the end of the Cold War.

The GKN/Agusta deal could pave the way for further deals – the other players are Boeing, Bell and Sikorsky in the US and Eurocopter, a joint venture between Aerospatiale of France and DaimlerChrysler Aerospace of Germany.

GKN and Finmeccanica announced last April they were discussing an "alliance of equals" between their helicopter businesses. Yesterday they said negotiations had resulted in agreements being signed, subject to regulatory approvals.

The companies said their assets would be contributed "on a broadly debt and cash free basis". The new venture will have an $8.5bn order book. "The enhanced technical and marketing power of the new company . . . will create significant value for GKN and Finmeccanica shareholders," the companies said.

David Wright, a GKN director who heads its aerospace arm, will be chairman of the venture. Amedeo Caporaletti, Agusta chief executive, will have the same title in the new company. Richard Case, chief executive of GKN Westland, will be managing director.

An executive at Finmeccanica said the agreement was vital to the turnaround of the industrial conglomerate. "This is an important development but it must be seen as a point of departure not a point of arrival. We do not want to simply manage this joint venture but actually make it grow."

Alberto Lina, Finmeccanica's chief executive, has sought to boost its value by entering European joint ventures. Its Alenia subsidiary last year launched a 50/50 joint venture with Marconi, the defence business being sold by GEC to British Aerospace.

Finmeccanica is holding talks with Casa of Spain and seeking to consolidate its space activities with those of other European companies.

The Westland deal is the second stage of a restructuring of GKN's defence interests. Last year it sold its armoured vehicles business to Alvis of the UK, in which it took a 29 per cent stake.

Moment of Truth, Page 21
Raytheon seeks link-ups, Page 25

US REGULATOR TO REVIEW AUDITOR'S PLANS

KPMG warned over move to float affiliate

By Jim Kelly

KPMG, the world's fourth largest accountancy firm, has been warned by US regulators that rapid implementation of plans for an initial public offering of part of its consultancy business could cost it its right to audit public companies.

Lynn Turner, chief accountant to the Securities and Exchange Commission, has told KPMG by letter that the firm's plan to create an affiliate – "K Consulting" – must first be reviewed by the Independence Standards Board.

The board seeks to ensure that auditors are independent of the companies whose accounts they are certifying.

The letter confirms KPMG's status as a pioneer in establishing the ground rules for a public offering of a consultancy allied to a public audit firm. It is clear the SEC is treating KPMG as a test case.

Rivals in the big five global accountancy firms will be watching to see if regulators allow public auditors to become linked to public offerings. They need the cash to offer stock options and fund acquisitions and investment.

The letter says that the review has the "highest priority" and is expected to be over by December. KPMG would have to comply with any ruling. The SEC would "vigorously oppose" any suggestion that KPMG could pre-empt a ruling by seeking an early stock exchange listing. KPMG audits five of the 25 largest US-based multi-nationals – General Electric, Citicorp, Motorola, Xerox, and PepsiCo. US revenues from consulting are running at $1.5bn in 1998 – up 50 per cent on the previous year.

KPMG is considering a public offering – or alternatively a private offering – of between 20 and 30 per cent of the new business. A valuation of up to $4bn for the entire affiliate has been suggested although the offering will be breaking new ground.

The SEC warning will be seen as part of its campaign to alert the markets to the extent to which it believes US financial reporting has been undermined by a lack of independence among auditors.

The letter makes it clear that KPMG has already offered to bar audit clients from holding an interest in the new business. The SEC said such ownership "would affect the independence of the auditor in both fact and appearance".

Ms Turner has told KPMG a "quality control system" needs to be in place prior to the offering. It should be reviewed with SEC staff and then inspected by "peers" from outside the firm.

If an investment slipped through the system it would mean KPMG could not audit the client's accounts.

"Disposal of the shares by the client or affiliates would not cure the lack of independence," said Ms Turner.

Bernard Arnault, chairman of French luxury goods group LVMH, presenting his annual report yesterday. He reported that the group had taken a €267m ($293.3m) charge for restructuring at its DFS duty-free shopping chain. Gucci rushes to publicise results rise, Page 26 Picture: Reuters

Brazil set to delay $8bn electricity privatisation

By John Barham in São Paulo

Brazil may have to delay privatisation of the generating assets of Eletrobras, the electricity company, which it hoped would raise $8bn. The sale, planned for the second half of this year, is a main element of the country's privatisation programme.

Eletrobras said it had postponed a shareholders meeting, scheduled for next week, to ratify a government decision to split the company's generating and transmission operations. It has not set a new date for the meeting.

Investment bankers advising the government on the complex Eletrobras sale had warned that the privatisation timetable was over-ambitious.

One banker said: "I do not think they can sell [Eletrobras] this year even if they push hard. They could slot in [another asset] instead, but they have to face the fact that the world is not sure if it likes Brazil."

Private sector economists have long doubted that the government would be able to raise more than $13bn in revenues this year. Many deals, such as Eletrobras, may have to be postponed.

Foreign companies have become increasingly wary of investing in Brazil after the Real crashed by 40 per cent in January. Last year, in contrast, the country was able to sell state companies for considerable premiums – the Telebras telecommunications company sold in July for $18.92bn, or 63 per cent above the minimum price.

Analysts say political opposition to the sale is growing. In addition, the transaction is dogged by complex technical and regulatory issues. Firmino Sampaio, Eletrobras president, said last week that it would be difficult to meet the government's privatisation timetable. He said "the [privatisation] timetable is tight, requiring the sale of one generating [company] per month".

Although devaluation has made Brazilian assets cheaper in dollar terms, it has also depressed companies' cashflow and profitability.

Furthermore, Brazil's increased risk profile has made it harder to raise finance for privatisations.

The investment banker said devaluation now means Brazil has "one of the lowest generating tariffs in the world".

Analysts say the Eletrobras privatisation is particularly complex because Brazil has one of the most complicated energy systems in the world with most of its power generated by hydro-electric dams.

New Japan and Wako Securities expected to link up

By Naoko Nakamae in Tokyo

Two of Japan's second-tier brokerages are expected to announce a merger that will create the country's fourth largest securities house.

A combination of Wako Securities and New Japan Securities would create a company managing more than Y9,000bn ($76bn) of financial assets. It would oust Kokusai Securities from the leadership of second-tier brokerages. Only Nomura, Daiwa and Nikko would be larger.

News of the proposed merger – a response to the harsh climate for middle ranking houses – sent shares of Wako and New Japan soaring. Wako rose Y1 to Y297 after trading as high as Y352, while New Japan was up Y50, or 24 per cent, at Y255.

The companies denied reaching an agreement and said the merger was "just one of the options" being considered.

The move highlights the pressures on the securities industry as it prepares for the next stage of "Big Bang" – Japan's programme of deregulation – when commissions on equity trades become fully liberalised in October.

The change is expected to inflict considerable damage on medium-sized brokers who depend heavily on equity commission revenue.

The potential merger is also significant because Wako and New Japan are affiliates of the Industrial Bank of Japan, also a shareholder in both. A deal between the two brokers would reinforce speculation that IBJ is planning to consolidate its securities business.

One of Japan's largest banks, IBJ is in the process of bolstering its business through restructuring, and its strategy for brokerage affiliates has been watched by investors.

The bank, which will be receiving public funds to boost its capital base at the end of the month, is the only one of the original "long-term credit banks" to avoid nationalisation. Nippon Credit Bank and Long-Term Credit Bank were nationalised last year.

New Japan Securities is expected to be the surviving entity and the merger is likely to be made at a ratio of about one share to one share.

The two brokerages will hold separate board meetings on March 24 to decide formally on the merger.

Asian economies show signs of recovery

International bond markets deliver vote of confidence that Far East crisis can be consigned to history

By Edward Luce, Capital Markets Editor

The Asian financial crisis is over, according to the international bond markets. Yields on Asian sovereign bonds have fallen steadily in the past few weeks and are beginning to approach levels seen before the crisis erupted in July 1997.

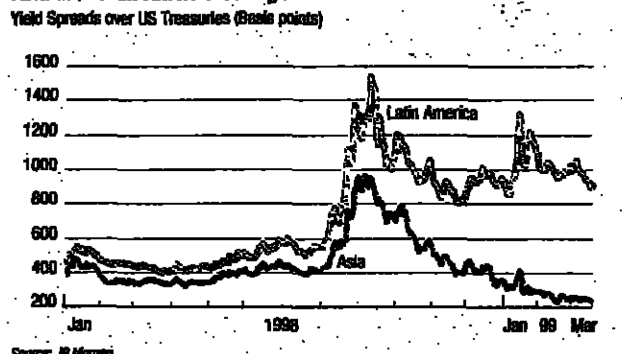
"We have turned full circle," said Carlos Cordeiro, managing director of Goldman Sachs, in Hong Kong. "The markets are pricing in a full recovery in Asia."

With the exception of Indonesia, whose banking sector remains mired in debt, the spread levels – or premium – of Asian bonds over US Treasury bonds have plummeted in recent weeks.

Spreads on the 10-year benchmark of the Korea Development Bank, which acts as a proxy borrower for the sovereign, have dropped from almost 1,000 basis points over 10-year US Treasury bonds last October to about 230 basis points this week. Similar rallies have taken place in Philippine and Thai debt.

Even Malaysia, which was heavily criticised for imposing capital controls on portfolio investments last September, has seen its proxy benchmark bond issued by Petronas, the state oil company, tighten to a spread of about 300 basis points over the US benchmark.

Asia and Latin America diverge
Yield Spreads over US Treasuries (Basis points)



Source: JP Morgan

"Asian governments now have full access to the international bond markets at reasonable funding levels," said Marc Jones, managing director of J.P. Morgan in Hong Kong.

The rally in Asian bond prices stands in contrast to the performance of most Latin American countries, especially in the aftermath of Brazil's decision to devalue the Real in January. With the exception of Mexico, which is viewed as having "decoupled" from the region owing to its low external funding requirements and proximity to the booming US economy, bond prices remain stubbornly low. The spread on Brazil and Venezuela's benchmark Brady bonds is about 1,000 basis points. Argentinian bonds are trading at spreads of around 700 basis points over US Treasuries. Only Mexico, at spreads of 425 basis points, is trading close to Asian debt levels.

However, bankers say that Latin American governments have much greater need to tap the international markets.

"It is a bit of a Catch 22," said one banker. "Now that Asian governments don't need the money, the markets are quite happy to lend to them. It's the other way round for countries like Brazil."

Most Asian countries, notably Korea and Thailand, have seen a sharp fall in domestic interest rates. Korea, in particular, which has benefited from having its investment grade credit rating restored by the rating agencies last month, has stepped up issuance of domestic bonds to take advantage of lower yields. This has diminished its need for external funds.

Similarly, Malaysia and Thailand have taken advantage of buoyant domestic liquidity to step up the supply of government bonds.

Of the leading Asian economies, only the Philippines and possibly Thailand are expected to visit the foreign currency bond markets in the next few months.

In contrast, both Brazil and Argentina, which has tapped the international markets several times this year at quite expensive rates, need to raise relatively large amounts of foreign capital this year. "There are signs that the market is beginning to offer better rates to the Latin Americans," said one banker. "But this is still early days."

Bonds, Page 32

ASIAN STEEL BIGGEST COMPANIES ARE FINDING DIFFERENT WAYS OF COPING WITH THE SERIOUS PROBLEMS THAT HAVE BESET THEIR INDUSTRY

Nippon warns profits could plunge 83%

By Alexandra Harney in Tokyo

Nippon Steel, Japan's leading steel maker, yesterday warned investors that pre-tax profits would collapse 83 per cent this year because losses from unprofitable subsidiaries would be larger than expected.

The company also revealed it would record extraordinary losses worth Y70bn ($591m) to cover a shortfall in pension reserves and compensation for retired workers. The news follows a recent announcement by Toyota Motor of a Y300bn shortfall in pension funds.

Nippon Steel said consolidated pre-tax profits would be Y15bn on sales of Y2,800bn, compared with earnings of Y86.5bn on turnover of Y3,076.5bn last year. The dividend would be Y1.5 a share, compared with Y2.5 last time.

The main reason for the sharp decline in profits was because several subsidiaries *were generating losses of* between Y1bn and Y2bn, the company said, but declined to identify which. However, Nippon Steel has businesses in computer systems and chemicals that are believed to be operating at a loss.

Parent pre-tax profits were expected to more than halve to Y50bn, on sales of Y1,920bn. The group did not expect to generate a profit at the net level, largely because of Y35bn of valuation losses from its equity portfolio.

The withdrawal from semiconductor production in Japan following the sale of its chip business to United Microelectronics, a Taiwan-based foundry maker, last *September generated* Y110bn in losses, on top of Y32bn in valuation losses from the sale of equity holdings in affiliated companies.

But the costs of compensating employees retiring early as part of its restructuring plan and a shortfall in its pension reserves, resulting from the decline in interest rates, would total Y70bn.

Although the gap between its obligations to pension recipients and its pension fund reserves had risen in recent years, the sharp fall in interest rates this year had created a far larger shortfall.

Because accounting rules until now have not forced Japanese companies to record the size of their pension liabilities on their balance sheets, many companies have been able to avoid taking such a loss.

However, when new accounting principles come into effect in 2001, some industry officials worry weaker companies could suffer huge losses and sharp falls in their stock price. This could also hurt their credit rating making finding new sources of funding difficult.

Although total pension provisions by Japanese companies are believed to be about Y70,000bn, analysts estimate the total shortfall could be between Y40,000bn and Y100,000bn.

Meanwhile, the outlook for the industry this year darkened after Akira Chihaya, Nippon Steel president, said he expected steel output to fall to 89m tonnes in the fiscal year starting in April. Nippon Steel also said it would be merging Osaka Steel and Kansai Billet, two electric furnace subsidiaries, to cut costs.

Nisshin Steel announced it would cut its dividend from Y5 to Y2.5 this year, sending its shares down Y6, or 4.4 per cent, to Y131. The group *is expecting* a pre-tax loss of Y2bn on turnover of Y390bn, compared with profits of Y13.2bn on sales of Y462.6bn last time. The company said it planned to deepen executives' salary cuts from 12 to 30 per cent starting next month.

NKK tries to forge ahead despite blows

By Alexandra Harney

With a weak smile, Masayoshi Ogura, chief of investor relations at NKK, Japan's second largest steel company, wearily repeats what he has told analysts and investors countless times in recent weeks.

Despite its expense, mounting losses and debts, Keihin Works, a blast furnace with a 4m tonne a year capacity located outside Tokyo, is kept running because it is an essential part of the company's distribution network. Shutting it down simply because demand had slowed would be unfair to the company's customers and employees.

His argument runs to the core of the problems in corporate Japan. In a sense, NKK has become symbolic of the steel industry's plight. Pilloried by a series of blows that began with the collapse of demand in Asia followed by the US anti-dumping levies, NKK has suffered a sharp decline in profitability and scrambled for ways to cut costs.

But the group has met opposition from unions and the plunge in land prices, which make closing *facilities* far more costly than keeping *them open*. NKK's *response* has instead been to try to persuade investors that it is making the right decisions.

Mr Ogura and other executives have launched an unusual campaign, including tours of the lossmaking Keihin Works plant. So far results have been mixed. Some analysts seem convinced NKK has made the necessary cuts to weather the downturn in demand.

But investors have not been so forgiving. NKK is expecting pre-tax losses of Y28bn ($236.4m) on turnover of Y1,020bn in the year that ends this month. The share price has sunk nearly 50 per cent since last July, below the Y100 benchmark.

Mr Ogura says annual losses at Keihin Works were smaller than believed and the group would return to profit at the pre-tax level in 1999. The company would also meet Y40bn in bond redemptions scheduled for this month – the subject of market concern.

"We have taken the appropriate measures to make these payments," says Mr Ogura. This is partly because the group has received additional funding from several private banks *to cover the absorption of* Toa Steel, a failed electric *furnace subsidiary, and from* the Japan Development Bank, the government-backed institution which has become NKK's largest lender amid the current difficulties. This comes when its financial position is already weak: consolidated interest-bearing *liabilities totalled* about Y1,570bn as of March 1998.

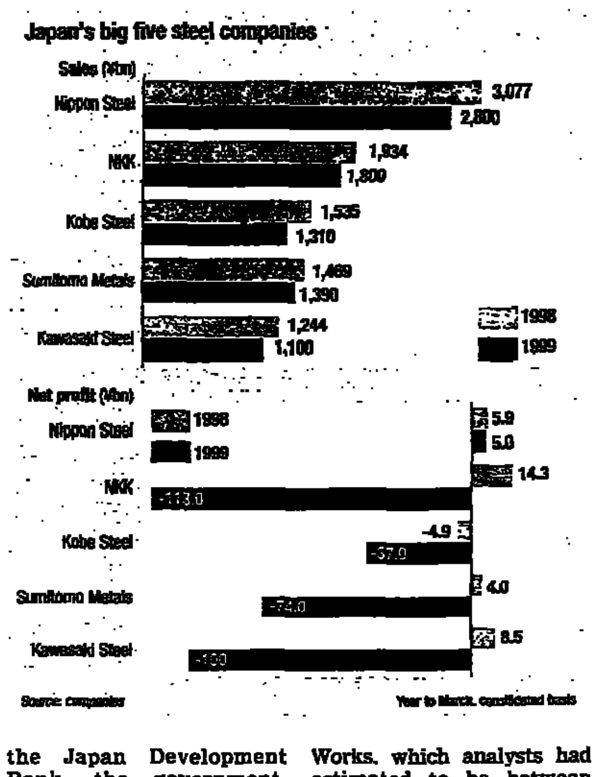
Annual losses at Keihin Works, which analysts had estimated to be between Y15bn and Y20bn, were only about Y10bn, reveals Mr Ogura, and it would begin generating profit in the year that begins this April, following cost cuts.

But most of the improvement would be from a restructuring including 3,300 job cuts by the end of 1999 and a withdrawal from memory device production, a business which has been in the red for five years and is expected to generate losses of Y13bn this year. This should allow the company to lower fixed and variable costs by Y50bn in 1999 and reach its target of Y20bn in pre-tax profits in fiscal *1999*, says the company.

However, part of the apparent improvement is clearly due to lower *iron ore* and coal prices negotiated with the company's chief suppliers in Australia. Japanese *steel* makers recently bargained for a 10.2 per cent reduction in lump iron ore prices, an 11 per cent cut in iron ore fines, and a 17 per cent price cut for coal, according to Conny Jamieson, analyst at Warburg Dillon Read in Tokyo.

The danger *is that lower* raw material prices will prompt NKK's main customers, including cost-conscious carmakers, to demand lower steel prices and slow NKK's return to profitability.

With steel demand expected to fall from 102.8m to 90.5m tonnes this year, and Japanese banks increasingly wary of risky lenders, the challenges facing NKK are immense.



Painful results fail to hurt China Steel

By Mure Dickie in Taipei

China Steel's profits plunged more than 60 per cent year-on-year in the first two months of 1999, but the painful results have failed to cloud the air of quiet confidence at Taiwan's biggest steelmaker.

The company thinks the worst effects of the Asian financial crisis may now have passed and that the stage is set for a real, if slow, recovery in the steel market both on the island and across the region.

"From the fourth quarter of last year and especially the beginning of this year we can feel very, very strongly and clearly that the entire economy in Asian countries is stabilised – and also coming back a little bit," says Wang Chung-yu, China Steel's chairman.

Mr Wang sees signs the steel market has found bottom in Taiwan and a good chance that a revival in exports to south east Asia – a market that all but disappeared in the second half of 1998 – will combine with government stimulus spending to create growth in the second quarter.

Even with that forecast – which some analysts think will prove too optimistic – 1999 will hardly be an easy year.

The company is aiming at a gross profit margin of around 10 per cent on sales of between T$92bn (US$2.8bn) and T$95bn, admirable by industry standards, but painfully low for China Steel. Pre-tax profits were T$16.8bn in 1998, down from T$20.1bn the year before.

Cut-price competition from Brazil and Russia and excess supply from Japanese and Korean companies blocked from exporting to the US and Europe have forced China Steel to slash prices to retain its dominance in the Taiwan market.

Mr Wang says the 10 per cent target was set more in hope than expectation late last year.

"We thought it would be very difficult," he says. "But with the improved situation we have a very good chance to achieve this target."

Analysts say the market could *still disappoint*, however. "Talk of a price rebound might be a little premature," says John Brebeck of Jardine Fleming Taiwan.

However the market develops, China Steel, which produced more than 9m tonnes of steel last year, will benefit from its status as one of the world's most efficient producers. "After this crisis they are going to be in a much better position than the others," says Ken Chen, analyst at ING Barings.

China Steel has cut costs 15 per cent since early 1998, although the company declines to say how much of the savings came from making staff fly tourist class and how much from squeezing suppliers.

Mr Wang says it will take three years for the steel markets of most Asian nations to recover to pre-crisis levels. But, far from considering pulling out of projects in Malaysia and Vietnam, the former engineer says China Steel is discussing new ventures in the region.

Indeed, China Steel's per*formance in difficult times* could derail government plans to sell some its 40 per cent stake in the company.

"Some people in the government want to keep the shares because they get such good dividends," Mr Wang says.

Exports tumble after US dispute

Japan's finance ministry revealed yesterday that steel exports plunged 33.5 per cent in February from a year *before*, the biggest drop since a 37 per cent fall in September 1986, due to sluggish shipments to the US and Asian countries, agencies report from Tokyo.

Japan's exports to the US, the focus of a trade dispute between the two countries, tumbled 49.4 per cent, apparently hurt by a preliminary ruling in February by the US commerce department that Japan is *dumping steel* in the US.

Criticising Japan for attempting to export its way *out of recession*, the department set preliminary anti-dumping duties to be levied on hot-rolled steel imports from Japan at between 25.14 per cent and 67.59 per cent.

In a related move yesterday, the US House of Representatives passed a bill to *limit steel imports for three* years to levels recorded in July 1997, when the Asian financial turmoil began.

Japan's overall steel exports in February were also dragged down by a 29.8 per cent fall in shipments to other Asian countries.

Meanwhile, the head of the Japan Iron and Steel Industry Federation said yesterday that based on prelim*inary analysis* and discussion, the group expects domestic steel production for the fiscal year beginning in April to total 89m tons, about 2m tons lower than originally projected.

The industry body expects domestic demand to drop by more than 1m tons and exports to drop sharply during the next fiscal year.

Demand for the April to June quarter is seen as worsening, however, and the 89m tons forecast was based on expectations for a recovery in demand during the second half. The federation estimates output for the current fiscal year of 93m tons.

NEWS DIGEST

PROPERTY

Sun Hung Kai earnings tumble 20% midway

Sun Hung Kai Properties, one of Hong Kong's biggest property groups, disappointed the market with a 20.4 per cent fall in interim net earnings, from HK$5.94bn to HK$4.72bn (US$609m) in the half-year ended December 31. Turnover rose 38 per cent from HK$12.65bn to HK$17.48bn.

Analysts had expected the group to book sufficient property sales before the year end to be able to report a modest profit. The group said total property sales were HK$11.91bn, an increase of 21 per cent over the same period last year.

Sun Hung Kai Properties has a land bank in Hong Kong of 50.5m sq ft, of which 18.7m sq ft is completed investment property and 31.8m sq ft is under development.

Walter Kwok, chairman, sounded an optimistic note for the beleaguered housing market, where prices have fallen 50 to 60 per cent from the peak in late 1997. He said government initiatives and a "more positive attitude" to lending by banks have helped the residential market.

"The group believes that the residential property prices have already stabilised, with the residential sector being healthy and without signs of speculative activity, as buyers are mainly end-users, he said.

Another factor aiding the market is the projected population boom, driven by immigrants from across the border. Mr Kwok forsaw a less rosy outlook for the commercial sector, with pressure likely to continue in the near term on office rentals as supply expands.

Sun Hung Kai Properties, like other Hong Kong corporates, has sought to reduce its gearing, which has been reduced to below 15 per cent. **Louise Lucas, Hong Kong**

Cheung Kong advances

Cheung Kong Infrastructure, a division of Li Ka-shing's business empire, yesterday posted an 18 per cent rise in annual net profits, from HK$2.41bn to HK$2.85bn (US$367m) last calander year. The rising profits, which were at the bottom end of market expectation, buck the trend of a broadly disappointing reporting season in Hong Kong, which has been marked by high levels of provisions and dwindling earnings.

CKI, however, has benefited from China's drive to stimulate the economy through infrastructure development. Although the mainland contributed just 18 per cent of total profits (the balance came from Hong Kong), it is a growing slice: infrastructure projects across the border posted a 58 per cent increase in profit contribution.

Victor Li, chairman, said a similar infrastructure trend was under way in Hong Kong, where the government has affirmed its intention to accelerate the investment process. In China, infrastructure development is a priority at various levels of government.

"With the majority of projects becoming operational, our infrastructure portfolio in China has matured, and is poised to report continued growth. We are confident the internal growth of all the core businesses will continue," he said.

CKI Materials, whose activities include cement, is also expected to piggyback on Hong Kong's increased spending on public housing and infrastructure. The biggest driver of profits, the group's 36 per cent stake in Hongkong Electric, the monopoly electricity supplier on Hong Kong island, reported a net profit increase of 5.5 per cent earlier this month.

CKI boasts a strong balance sheet, a key asset at a time of deflation and tight credit. At the end of last year, the group's net debt to equity ratio was 8.7 per cent, with cash in hand of HK$1.33bn and debt of HK$3.1bn.

Earnings per share for last year rose by 10 per cent, from HK$1.15 to HK$1.27. Shareholders are to receive a final dividend of HK$0.26, giving a total annual payout of HK$0.38, an 18.75 per cent increase over the HK$0.32 paid the previous year. **Louise Lucas**

SOUTH KOREA

Banks to merge

Cho Hung Bank, one of South Korea's big six commercial banks, yesterday said it would merge with Chungbuk Bank, a provincial bank, on May 3 under a state-sponsored restructuring of the nation's troubled banking sector.

The government earlier ordered Cho Hung to take over Chungbuk after it failed to conclude negotiations on the merger of two other small banks, Kangwon Bank and Hyundai International Merchant Bank, because of a dispute over equity stakes.

The state promised to recapitalise financially troubled Cho Hung once its merger with Chungbuk is completed. Cho Hung is still hoping to take over Kangwon Bank, which merged with Hyundai International Merchant Bank in February. **John Burton, Seoul**

JAPANESE RETAILING

Mitsukoshi warns on profits

Mitsukoshi, a leading Japanese department store, yesterday issued a profits warning, downgrading its forecast for group net losses from Y3.5bn to Y11.5bn ($97m) for fiscal 1998. It also revised down its prediction for group pre-tax losses before exceptionals from Y2bn to Y4.4bn.

The company blamed the downgrade on weak consumer spending amid a deepening recession. Last month it issued a profits warning on an unconsolidated level, citing sluggish sales and restructuring costs. In particular, the department store operator said that it would post a Y11.3bn extraordinary loss from its withdrawal from a failed golf course development project.

But Mitsukoshi yesterday revised up its parent forecast, upgrading its prediction for unconsolidated net losses from Y26bn to Y24.7bn. It also said that it now expected a Y80m unconsolidated pre-tax profit before exceptionals instead of the Y800m loss it predicted last month. The company said that store sales had been better than expected towards the end of its fiscal year on February 28. It also attributed the upgrade to sales and general cost reductions.

Mitsukoshi's announcement yesterday was made after the market closed. Its shares fell Y19, or 5.6 per cent, to Y320 in a falling stockmarket. **Naoko Nakamae, Tokyo**

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HONG KONG INVESTMENT FOCUS SHIFTS TO REDUCING DEBT AND CONCENTRATING ON UTILITIES

Citic Pacific suffers 62% drop in profits

By Rahul Jacob in Hong Kong

Citic Pacific, the Hong Kong arm of Beijing's main investment vehicle, yesterday reported net profits of HK$2.8bn (US$361m), down 62 per cent from HK$7.4bn in 1997 when profits were boosted by one-off gains, including the sale of the company's stake in Hongkong Telecom for HK$3.2 bn.

The company said it was actively pruning its debt and had reduced its debt load from HK$21.2bn at the end of 1998 to HK$18.3bn. "We will continue to make investments but it is more important for us to lower our liabilities," said Larry Yung, chairman.

The company sold its 25 per cent stake in a Shanghai power plant in early 1999 to concentrate on managing the power businesses it owns. It also sold water plants in Nanjing and Wuxi and a toll road in Wuxi. Mr Yung said the company had netted US$300m from the sale of these assets.

"They have been divesting a number of their infrastructure projects in China because the projects are not profitable and in some cases the partner may not be able to honour the minimum guaranteed return," said Carlton Poon, a director of Worldsec International, a Hong Kong based brokerage.

Citic Pacific's profits were below the market consensus, largely because income from the sale of properties in a Hong Kong development will be booked in 1999, instead of 1998 as analysts had assumed.

Excluding the effect of the non-recurring gain in 1997, the company's profits fell 32 per cent because income from its stake in Cathay Pacific, Hong Kong's main airline, and its property businesses slumped. Cathay recently announced its first loss in 35 years.

Citic also has stakes in one of Hong Kong's power companies, two of the city's cross-harbour tunnels, and infrastructure investments in China. The company said it planned to invest HK$3.6bn in power plants in China over the next three years.

It said it expected about 70-75 per cent of its profits in 1999 to come from its infrastructure investments.

Citic was once touted as a China growth prospect, but the company is looking more like a utility, said observers. "It may be dull, it may be boring, but at least you have a decent utility," said Mr Poon.

Citic said that 86 per cent of its flagship office tower in Hong Kong had been let. Rents and capital values in the Hong Kong real estate market have come down sharply since the property bubble burst in late 1997.

Turnover dropped from HK$16.79bn to HK$13.69bn in 1998. Citic announced a final dividend of 50 cents, giving a total payment for the year of 70 cents. Last year's dividend of HK$1 was higher because of a special dividend of 50 cents.

Dan Burnham: would prefer a majority equity investment

Raytheon seeks more link-ups

By Alexander Nicoll, Defence Correspondent

Raytheon, the US defence electronics group, is "constantly on the lookout" for opportunities to strike partnerships with European companies that could include purchases of equity, Dan Burnham, chief executive, said yesterday.

In an interview with the Financial Times, he said Raytheon already had relationships with Thomson-CSF of France and Daimler-Chrysler Aerospace of Germany, as well as with Marconi of the UK, which is part of its team bidding for a British £750m airborne radar contract.

"If we can make equity investments we will, and we prefer a majority to a minority." However, any moves would depend on what was practical, given restrictions on ownership in the defence industry. "We want relationships with European companies because we think we can win more business and they can win more business."

Mr Burnham criticised the notion of a single European defence company, which has been supported by European governments. "I can't imagine it happening. Would it become an armed camp, a protector of its workforce and a subsidised industry that drives up the cost of defence procurement? If so how can it be successful?"

Mr Burnham said companies would do what was in their own interest. "You can't play a six-dimensional chess game. You've got to deal with the situation at hand."

Consolidation within the US defence industry would continue among second-tier companies rather than the biggest prime contractors, Mr Burnham said. "There's still excess capacity in the industry."

Raytheon's acquisition in 1997 of the defence businesses of Hughes Aircraft and Texas Instruments triggered a big reorganisation that has resulted in plant closures and the loss of 14,000 jobs.

Mr Burnham said this had produced enormous cost savings in defence programmes for the US taxpayer.

Raytheon, the leader in several types of missiles, stands to benefit from the renewed push by US politicians for ballistic missile defence systems. The US Senate voted by 97-3 on Wednesday for a nationwide missile defence shield.

"The political process has spoken eloquently," Mr Burnham said. "The technology is evolving very quickly to be able to produce that kind of security."

US defence spending, which was cut sharply after the Cold War, had bottomed out. "The pressures are up, not down."

China Everbright acquires state bank

By James Kynge in Beijing

China Everbright Bank, a Chinese commercial bank, yesterday announced the acquisition of a state bank which had accumulated a bad asset ratio of about 50 per cent through lending to troubled sectors of the slowing economy.

The deal, rare in China's state-dominated banking system, bore the hallmarks of a rescue, analysts said. However, Zhu Xiaohua, China Everbright's chairman, said the acquisition had been made because of its merits and not because of any official pressure.

Mr Zhu said Everbright had received the 137 banking offices of China Investment Bank (CIB), a state-owned bank, without payment, in return for taking over most of its assets and liabilities. The merged bank has total assets of around Rmb150bn ($18.1bn), some Rmb70bn of which was contributed by China Everbright, he added.

All the foreign currency assets of CIB, some 80 per cent of which were non-performing, have been taken over by the finance ministry, Everbright officials said.

According to 1997 figures, CIB had foreign currency assets of $1.07bn. CIB had been a window for World Bank and Asian Development Bank lending to Chinese projects.

The finance ministry's assumption of foreign currency assets has reduced the merged entity's ratio of non-performing assets to around 30 per cent, Mr Zhu said. After loan write-offs and cost-cutting, including the loss of some 2,000 jobs from CIB, the merged entity would return to profitability in 2000 after a year of restructuring.

Although the acquisition is expected to circumscribe China Everbright's activities in the short term, CIB's nationwide retail network may prove a boon in the longer term. Analysts said much would depend on whether China Everbright could turn around CIB's poor credit assessment record.

"From now on, we will only lend to quality projects," said Mr Zhu.

DISTRIBUTION DEUTSCHE POST ACQUISITION INCREASES SECTOR CONSOLIDATION

Nedlloyd arm sells for Fl 1.17bn

By Gordon Cramb in Amsterdam and Charles Batchelor in London

The consolidation of the European parcels and distribution sector took a further step forward yesterday with the announcement of the Fl 1.17bn (€530m, $584m) sale of Dutch shipping group Nedlloyd's road transport operations to the German post office, Deutsche Post.

Shares in Nedlloyd soared €7, or 58 per cent, to €19 on news of the deal which will leave its half share in P&O Nedlloyd, the container shipping venture created with P&O of the UK in 1997, as its main source of revenues.

Nedlloyd, which yesterday announced an 11 per cent fall in attributable profits to Fl 64m in 1998, expects to make a capital gain on the sale of about Fl 600m.

Deutsche Post plans to integrate Nedlloyd's parcels delivery companies Van Gend & Loos Benelux and Selektvracht into its own European parcels delivery network while the distribution operations will be merged with Danzas, the Swiss logistics group, for which an agreed offer was made in December. Leo Berndsen, Nedlloyd chairman, said the group had recognised that it could not on its own reach a top position in a rapidly consolidating European land transport sector.

That had been brought home by the agreement under which Deutsche Post is to take over Danzas.

Deutsche Post has made great strides to shed its image of a bureaucratic state-owned post office but has prompted claims the taxpayer is financing its commercial expansion.

The prospect of the liberalisation of European postal services from 2003 has given a spur to its expansion policy.

The sale of what Nedlloyd calls its European Transportation and Distribution group throws a question market over the alliance formed last year with Denmark's DanTransport, Dubois of France and Saima Avandero in Italy.

Mr Berndsen said however that the commitments to its partners in this grouping would be met.

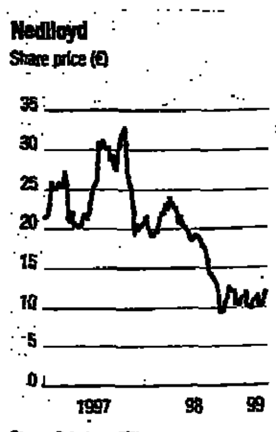
After completing the planned sales of stakes in ECT, the Rotterdam port handler, and the airline Martinair it will otherwise retain only Mammoet, which transports heavy equipment.

The surge in Nedlloyd shares reflected not only the profit expected from the sale but also its 1998 results.

Although attributable profits were down and the company made a Fl 5m loss before extraordinary gains, against earnings of Fl 32m, the outcome was better than expected by analysts.

Operating profits of the unit being sold to Deutsche Post and Danzas were Fl 20m, up 25 per cent.

The results also reflected a reduction in pre-tax losses at the P&O Nedlloyd venture to $2m from $74m.



Source: Datastream/ICV

Mr Berndsen said the company would consider undertaking a share buy-back with the proceeds, while a plan to restructure Nedlloyd's debt would go ahead. "It is definitely not our intention to transform Nedlloyd into a passive investment company."

BMW profit helps offset big Rover loss

By Uta Harnischfeger in Frankfurt and John Griffiths in London

Net losses at BMW's UK Rover Group subsidiary last year soared to DM1.87bn (€956m, $1.05bn), well above analysts' estimates and underlining the huge task the German vehicles group faces in restoring Rover to profitability.

However a 24.5 per cent jump in BMW's own operating profits, to DM3.92bn, helped offset what one analyst described as "a blood bath at Rover" and the group's overall DM903m net profit was in line with projections. As a result, BMW's shares closed last night up €5 at €635.

The Munich-headquartered group had forecast net profit to come in below its DM1.25bn net profit in 1997, but above its DM820m net profit in 1996.

The dividend was maintained at DM20 an ordinary share and at DM21 a preferred share.

Analysts' forecasts of Rover's losses had ranged mostly between DM1.2bn and DM1.5bn. The worse-than-expected performance was attributed mainly to payments for hundreds of job cuts and other restructuring measures, exchange rate losses caused by the strong British pound and costs associated with bringing new models, notably the Rover 75, into production.

As expected, BMW's board announced no decision on whether replacements for Rover's 200 and 400 families of cars will be built at its Longbridge plant or at a possible alternative site in Hungary.

A final verdict is expected to be given at the end of this month.

The UK Department of Trade and Industry's proposed aid package for Longbridge, understood to be close to £200m and involving a number of productivity and other provisos, was delivered to the BMW board on Wednesday.

But both the board and DTI knew in advance that its complexity would rule out any immediate decision on Longbridge's future.

"It ... breaks new ground for a package of this nature. We therefore expect to have further discussions in the next few weeks," Stephen Byers, trade and industry secretary, said yesterday.

Gucci rushes to publicise results rise

By Alice Rawsthorn in London and David Owen in Paris

On the eve of a crunch meeting with LVMH, the French luxury good group, Gucci, the Italian fashion house, yesterday rushed out details of its results for the year to January 31 and reported an 11 per cent increase in net income to $195m.

Gucci, which has been locked in an acrimonious battle with LVMH since January when the French group began a $1.4bn process of buying 34.4 per cent of its equity, saw its shares rise by €4.50 in Amsterdam, or nearly 8 per cent, to €63.90 on the announcement.

The full results will be published on Monday. However, Domenico De Sole, president, said Gucci had decided to publish highlights from them ahead of schedule in response to comments made by LVMH when presenting its full-year figures to analysts in Paris.

"I would invite investors and analysts to compare our excellent results with the 1998 results LVMH published today," he said.

LVMH reported a 29 per cent decline in 1998 profits – with net income from current operations falling to FFr3.45bn (€526m, $579m) from FFr4.87bn on sales down to FFr45.5bn from FFr48bn – but appeared upbeat about its prospects.

Bernard Arnault, chairman, said that, if economic conditions remained as at present, LVMH should achieve growth of more than 15 per cent in like-for-like operating profits. LVMH's shares were up €10.70, or nearly 5 per cent, in Paris to €231.20 yesterday.

Both LVMH and Gucci, like other luxury goods companies, have been adversely affected by the instability of their once-buoyant Asian market. However, their problems in Asia have eased since last autumn, as the Japanese yen has strengthened against the US dollar.

Gucci appears to have turned the corner. As well as the net income increase, it yesterday reported a 7 per cent rise in revenue to $1.04bn from $975m. Similarly, LVMH said its sales had risen by 9.5 per cent in the first two months of 1999, with those of Louis Vuitton, its crown jewel, up 20 per cent.

After weeks of public and private wrangling, the two companies face the challenge of burying their differences at today's meeting in Amsterdam. They have been urged to seek a negotiated settlement by a Dutch court, pending its final ruling on the legal battle between them in late April.

Mr Arnault hopes to persuade the Gucci board to co-operate with LVMH's luxury companies in operational areas such as property and advertising negotiations.

The LVMH camp has identified more than FFr400m of possible synergies between Vuitton and Gucci, some FFr160m of which would come from purchasing and logistics.

Lyonnais and Mellon discuss link

By Samer Iskandar in Paris

Crédit Lyonnais, the French bank, yesterday said it was negotiating a potential alliance with Mellon Bank of the US.

"We are in talks with Mellon Bank," said Jean Peyrelevade, Lyonnais chairman. "We have very good relations with its managers."

Signing a co-operation agreement on fund management would qualify Mellon Bank as a potential core shareholder in Lyonnais, whose privatisation was launched this week.

The French government is to sell up to 33 per cent of Lyonnais to a group of core shareholders, who must have "industrial partnerships" with Lyonnais. Each bidder's stake will be capped at 10 per cent. Another 50-55 per cent will be floated on the stock market. Lyonnais employees will be offered up to 5 per cent at preferential terms, while the state will retain a share of just under 10 per cent, when the sale is completed by the middle of the year.


Jean Peyrelevade predicts improvement in profitability — Reuters

Mellon Bank, which last year bought 75 per cent of Newton Management, a UK fund manager with $20bn of assets under management, yesterday refused to discuss its intentions concerning Lyonnais. However, the bank said it continued "to examine opportunities to expand [its] investment management capabilities overseas".

Axa, France's largest insurance company, yesterday confirmed its interest in participating. Claude Bébér, chairman, said Axa had "no intention to take control of a bank" but investing in Lyonnais would strengthen existing commercial links. Axa sells roughly FFr700m (€107m, $117m) of insurance policies a year through Lyonnais' branches. Other bidders include Crédit Agricole, France's largest bank in terms of deposits, and Allianz, the German insurer.

Last year, Lyonnais increased its provisions by 7.6 per cent to €1.3bn. Half the increase was linked to the bank's exposure to Russia and the crisis-hit Asian emerging markets. Net profits almost tripled, from FFr357m to FFr1.08bn, mainly as a result of cost cutting efforts and an improving domestic economic environment.

Lyonnais predicted this year would show "an improvement in the profitability of every strategic business line".

Bertelsmann to lobby Washington

By John Gapper in London, Frederick Studemann in Berlin and Richard Waters in New York

Bertelsmann, the privately owned German media company, is to lobby the US government to relax restrictions on foreign companies controlling US television networks as part of its efforts to expand operations in North America.

Bertelsmann has ruled out the purchase of a Hollywood film studio, but would like the freedom to buy a majority stake in a US network, following its acquisition last year of the publishing company Random House.

Thomas Middelhoff, chief executive of Bertelsmann, said in an recent interview that the German company would "discuss carefully and confidentially with the administration in Washington" relaxation of rules that bar foreign companies from holding more than 24.9 per cent of a network.

Mr Middelhoff said that control of a network was a long-term interest of Bertelsmann. It is restricted in the short term both by regulations and the fact that it expects to wait two or three years before making another large acquisition.

Bertelsmann also owns the book publisher Bantam Doubleday Dell and BMG Entertainment, one of the world's biggest music companies.

Mr Middelhoff said Bertelsmann would argue that US regulations are more restrictive than those in Germany, where there are varying regulations in the different states, but no formal national limits on foreign ownership of television channels. However, US regulations match those in other European countries.

Bertelsmann has signalled recently that its broadcasting subsidiary, CLT-Ufa, will concentrate on free-to-air television operations. CLT-Ufa, which holds a stake in Channel 5 in the UK along with Pearson, publisher of the Financial Times, is negotiating the sale of most of its stake in Premiere, a German pay television operation.

Olivetti may face €1.6bn bill for takeover bid

By Hugo Dixon and Vincent Boland

Olivetti, the Italian telecommunications group, could face a bill for €1.6bn (L3.096bn, $1.76bn) if its hostile €52.6bn takeover offer for Telecom Italia succeeds.

That would make it one of the most expensive bids ever mounted, and mean the fees are among the most aggressively oriented towards the success of the bid.

Details released yesterday of the structure of Olivetti's bid show it has set aside €1.6bn for "fees, expenses and interest escrow" from the €54.2bn it is putting together to finance the takeover attempt.

The €1.6bn is understood to include the fees of its advisers and lending banks, stamp duty on the acquisition of Telecom Italia, and six months of accrued interest on a syndicated loan of €22.5bn it is raising to help finance the bid.

The figures were in documents revealed yesterday during a presentation by Olivetti in London to analysts and investors, where the company explained the rationale for its bid for Telecom Italia and what it intended to do with the company if the bid succeeded. In the document Olivetti revealed that while its offer valued Telecom Italia at €52.6bn, the total funding required to complete it would be €54.2bn.

Of the €1.6bn, about €400m will be payable to the syndicate lending €22.5bn to Olivetti if the bid is successful and it needs to draw down all the cash.

It is understood about half of that €400m will be payable whether the bid succeeds or not, in order to win commitments from the lending banks.

It is believed €120m would be payable to Olivetti's advisers, including investment banks and lawyers. It is understood all of these fees are success-related.

In the expense category, €526m would be payable in stamp duty by Olivetti if it received 100 per cent acceptances of its offer from Telecom Italia shareholders.

The stamp duty is one per cent of the value of the transaction. Olivetti's bid values Telecom Italia at €52.6bn.

Much of the rest of the €1.6bn is accounted for by six months of accrued interest on the €22.5bn syndicated loan.

Deutsche Bank plans to sell Bankers Trust arm

By Jane Martinson in Brussels

Deutsche Bank plans to sell the Australasian asset management business of Bankers Trust once its $10.1bn bid for the US investment banking business is finalised.

The decision to sell BT Fund Management Australia has surprised some industry analysts because it was considered a covetable part of BT's active fund management arm. With some $26bn of assets under management at the end of last year, the company is the largest mutual fund manager and second largest institutional manager in Australia.

Michael Dobson, the head of Deutsche's asset management business, said the group had decided the Australian business overlapped with Axiom, its own Australian business which has $14bn of assets under management. The two businesses would have had 13 per cent of the Australian institutional fund management market, he said, with a large combined holding in several companies.

He denied the management of BT had disagreed with any integration plans.

"This is nothing to do with difficult people or power struggles or anything, this is the right thing to do for Deutsche Bank and Bankers Trust," he said yesterday, after Deutsche announced last year's results.

Interest in the Australasian business, which includes New Zealand, is understood to come from domestic Australian banks as well as international groups.

Investment bankers have estimated a price of up to $1bn which would represent just over 3 per cent of assets under management.

Deutsche Bank is understood to want the deal done as quickly as possible although it would not be agreed finally until after the BT takeover goes ahead at the end of May.

Deutsche announced in January that the Australian asset management business would be run separately, in contrast to its plans for the US and Japanese operations for BT. The takeover of the US bank adds almost $400bn to assets under management at Deutsche, bringing the combined total to about $670bn.

However, a large chunk of BT's assets – about $300bn – are invested in index tracking funds and will be managed by the combined group custody operations which are headquartered in the US.

The group's US active management business is to rise from $12bn to $75bn as a result of the deal.

Turks transform to survive

Conglomerates are searching for new growth areas, writes **Leyla Boulton**

Turkey's conglomerates, the main locomotive of its industrialisation, are transforming themselves in response to an economic slowdown and liquidity squeeze that has put the survival of some of them in doubt.

Those with the financial muscle to withstand the difficulties, such as Sabanci and Koç, are seeking to enter growth industries such as telecommunications and energy.

The transformation at Koç and Sabanci, which cover the broad spectrum of Turkish industry, is driven in part by a desire to reduce group exposure to cyclical sectors such as automotive manufacturing, textiles and white goods.

Both are expected in the next month or so to report consolidated earnings for 1998 were hit by a slowdown in domestic demand for durable goods. "Everybody's margins will be affected by the Turkish market in 1998," says Tahsin Saltik, director for investor relations at Koç.

The group will review all its businesses this year to determine which, if any, sectors it should quit. In the meantime, it has teamed up with SBC, the US telecoms operator, to bid for a 25 per cent strategic stake in the privatisation of Türk Telekom expected at the end of this year.

Koç and Sabanci plan to bid for a new cellular telephone licence to be auctioned by the government.

Koç is also in discussions with PSG, a consortium led by Bechtel of the US, on taking an equity stake in a proposed natural gas pipeline from the central Asian republic of Turkmenistan to Turkey, Europe's fastest-growing energy market.

At home Koç seeks to gain control of 2,500MW of power generating capacity as the electricity industry is gradually turned over to private operators.

Aydin Muderrisoglu, vice-president for strategic planning, expects the group to generate 20 per cent of its revenues from energy and telecommunications within five years.

He reckons it will need to raise $500m to $700m to pay for its stake in new investments which together with partners' interests will be worth around $3.5bn.

Sabanci, apart from significantly stepping up its presence in food retailing, plans to bid for Petkim, a state-owned petrochemicals group earmarked for privatisation.

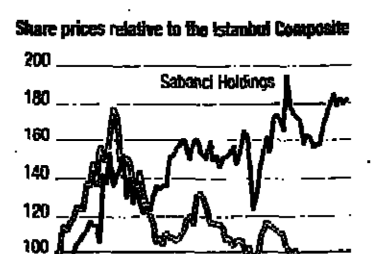
Financing some of these acquisitions will mean going to international capital markets to raise capital through secondary offerings of shares still owned by the groups' founding families.

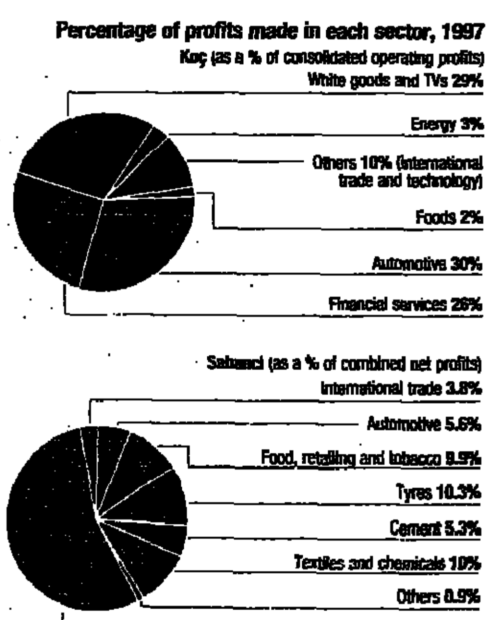
"We [as the Sabanci family] don't need to own this much," says Erol Sabanci, chairman of Akbank, the country's second biggest private sector bank which together with the conglomerate's insurance business generated 71 per cent of Sabanci group's profits last year. "But there has to be appetite for such offerings in order not to hurt the share price."

Mr Sabanci says the group intends to increase the free float of its 12 listed companies by five to 10 percentage points from an average of 18 per cent as and when market conditions pick up. Koç and Sabanci have told analysts they expect to tap markets later this year.

Koç and Sabanci Holdings


Tahsin Saltik, director of investor relations, Koç





Source: Datastream/ICV; companies

Greater openness to capital markets is in turn prompting the companies to provide more information about themselves, partly by making their own structure and accounting practices more transparent.

After pulling a secondary share offering at the last minute, Koc is seeking to shed what it says is an undeserved image of aloofness. At a time when most big private sector banks still have sizeable industrial holdings, Akbank has just completed its transformation into a pure banking business by selling its industrial stakes to the holding company.

This new strategy extends even to some of the smaller conglomerates. Dogan, the country's biggest media group with subsidiaries in banking, automotive spare parts and steel rope, intends to distribute electricity. According to Imre Barmanbek, Dogan's chief financial officer: "We cannot expect endless growth from the media and finance so we are reducing our risk by not putting all our eggs in one basket."

Axa announces 27% rise in net profit to €1.53bn

By Samer Iskandar in Paris

Axa, France's biggest insurer, yesterday reported a 26.8 per cent rise in 1998 net profits to €1.53bn (FFr10bn, $1.68bn) and predicted 15 per cent growth in profits per share this year, "unless there is a major shock on the financial markets".

Claude Bébéar, Axa chairman, suggested a dividend of €1.70, a 24 per cent rise from that paid in 1997, to be approved at the next shareholders' meeting. He also set a target of 15 per cent return on equity by 2002, compared with 12.8 per cent last year and 11.2 per cent in 1997. Axa shares closed 1.1 per cent lower at €127.1.

Henri de Castries, chief executive, said this year's priorities were to "continue integrating and reorganising recent acquisitions, and extending our distribution networks". Acquisition opportunities would be examined on a case by case basis.

Axa also confirmed yesterday it was considering taking a stake in Crédit Lyonnais, the bank whose privatisation was launched this week. The government is setting up a group of core shareholders, which will be offered stakes of up to 10 per cent each in Lyonnais.

■ German pharmaceutical and chemical maker Hoechst yesterday painted a bleak outlook for its industrial chemicals businesses, writes Uta Harnischfeger in Frankfurt. However, it was optimistic that its drug and life science activities would show a double-digit rise in operating profit this year.

Hoechst's forecast underlined recent demands by Hoechst shareholders, particularly from Kuwait Petroleum Corporation, to merge its life science activities with France's Rhône-Poulenc as soon as possible.

Hoechst said that due to further sales of its industrial activities in 1999, sales would be DM30bn this year, down from DM43.7bn in 1998, but flat on an unadjusted basis. It forecast a particularly bad year for its basic chemicals division Celanese. Hoechst expects Celanese's earnings to "fall sharply" this year, casting a bad light on Hoechst's endeavors to sell the unit.

Because the full merger is now planned for the end of the year, this puts further pressure on Hoechst to sell its remaining chemical activities as soon as possible. Initially, Hoechst had planned to spin off Celanese and Ticona to its shareholders, but it is now considering alternatives.

CEBIT 99 TECHNOLOGY FAIR IN HANOVER

Europe's IT market catches the wave

By Paul Taylor and Christopher Price in Hanover

The world's biggest information technology and telecommunications companies, gathered in Hanover, Germany for the annual CeBIT technology fair, are optimistic about the outlook for electronic commerce and sales of IT products and services in Europe.

Technology leaders including John Chambers, Cisco's chief executive, Patrick Gelsinger, Intel's general manager, and Henning Kagermann, SAP's co-chief executive, all delivered upbeat market assessments yesterday underlining the buoyancy of the European IT market, the fastest-growing in the world.

Some 750,000 people are expected to visit CeBIT 99 over the next few days, tramping through the fair's 26 giant halls which house about 6,000 exhibitors from around the globe, making it the world's largest IT fair.

But the mood at CeBIT 99 is in sharp contrast with that two years ago, shortly after Intel's Andy Grove had shocked delegates to the World Economic Forum in Davos, Switzerland by telling them that Europe risked slipping behind in the adoption of new technology – particularly the internet.

There has been a dramatic change over the past year, said Rob Eckelmann, head of Intel's European operations, yesterday.

For example, he noted that the mix of Intel microprocessors sold in Europe was now richer than that in the US.

The growing importance of Europe to the IT industry's US giants is also highlighted by Microsoft's much larger presence at CeBIT this year.

Microsoft's stand reflects the desire of the world's largest software group to extend its reach from the handheld PC market, where it was showing the latest machines running its Windows CE operating system, through desktop systems, to the corporate data centre at which it is targeting Windows 2000, the next version of its NT operating system.

Like other exhibitors, Microsoft and its IT partners are also emphasising the importance of electronic commerce for corporate competitiveness. As Mr Chambers noted, electronic commerce is poised to grow dramatically in Europe as more consumers go online.

The growing acceptance of internet and electronic business as an integral part of everyday operations is one of the main themes to emerge from this year's CeBIT fair.

Other emerging trends highlighted by the record number of exhibitors at the show include the rapidly changing IT landscape, shaped by big deals such as Compaq Computer's acquisition of Digital Equipment, or Nortel's purchase of Bay Networks which highlights the convergence not just of voice and data technologies, but of mobile and fixed telecommunications.

Linux system gains big backers

By Christopher Price in Hanover

SAP and Siemens yesterday gave a boost to Linux when the two German groups said they would begin supporting the open source computer operating system which is emerging as a competitor to Microsoft's Windows.

They are the latest in a string of computer groups that have begun offering software and support to Linux. The operating system, developed from the Unix version, is popular with some programmers because its source code has been made available free to anyone who wishes to programme from it. Microsoft's Windows NT is a closed system. Some programmers and developers believe Linux's open source makes it more flexible and gives it greater potential as computing moves into the new millennium.

There is also concern among some users over being too tied to Microsoft software and products. SAP's decision was made due to customer demand, the company said yesterday.

"In view of the market interest for Linux, its stable technological foundation and our commitment to platform independence, it was incumbent on SAP to step up to delivering SAP R/3 on Linux," said Karl-Heinz Hess, executive vice president of systems technology development.

SAP is the world's biggest supplier of enterprise resource planning software, which is used to run computer databases of large and medium sized businesses.

The company said it would begin shipping software running on Linux in conjunction with its hardware partners, Compaq Computer, Hewlett-Packard and IBM.

"Linux is a stable, reliable operating system that has gained a quality to be ready for running mission-critical business applications, such as SAP R/3," said Robert Hoog, president of Siemens computer systems division. He said Siemens would be working with SAP to develop an integrated Linux-led system.

Equant advances after going public

By Alan Cane in London

Equant, the global networking group which floated in Paris and New York last July, continued to make progress last year in its transformation from private operator to competitive global carrier.

It saw revenues increase 41.6 per cent to $404.2m in the second half of the year, while revenues for the whole of 1998 came in at $723.7m, a $194.7m improvement over the year before.

Didier Delepine, chief executive, said revenues in the year increased faster than costs.

Earnings before interest, tax, depreciation and amortisation for the final six months were $55.2m, an 87 per cent improvement over 1997.

For the year, the company reported a net loss of $43.4m or 23 cents a share.

Israeli high-techs face cherry-pickers before they are ripe

Overseas companies are tempting small enterprises that have not had chance to mature with cash, reports **Avi Machlis**

Israel's financial pages recently have been boasting yet another vote of confidence in the country's technology sector, following the biggest foreign acquisition of a local software company.

But not everybody cheered in Tel Aviv when BMC Software of Houston purchased New Dimension Software, the Israeli enterprise management specialist, for more than $650m.

The acquisition continues a wave of cross-border deals, but it has also reignited a public debate over the future of Israel's high-tech sector. As more overseas groups tempt small Israeli companies with quick cash, critics warn the sector may become a research and development subsidiary of Silicon Valley, and its companies may never mature into significant players on world markets. Even Dan Barnea, New Dimension chief executive, had mixed feelings, especially since the deal was a product of a prolonged shareholders dispute.

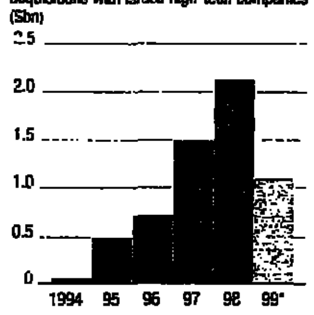
"I really hoped we could grow and prove that an Israeli company could become a big player on international markets," said Mr Barnea.

Cross-border merger and acquisition activity in Israel's high-tech sector climbed from $1.5bn in 1997 – including one $858m merger – to a record $2.13bn in 1998, according to Giza Group, a Tel Aviv investment bank.

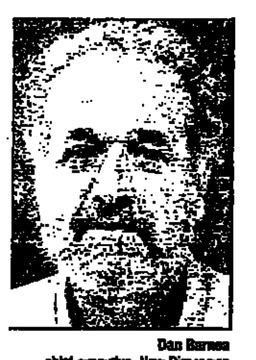
This year, M&A activity has already reached $1.1bn, after SunGard, the US software group, last week acquired Oshap of Israel for $210m worth of stock. Most companies targeted had scant revenues and were purchased because of their innovative technologies. In addition, America Online's $407m acquisition of Mirabilis, creator of an internet chat program with no revenues, was designed to tap into more than 16m users. Others, like New Dimension with revenues of $93m, had just started growing.

The Israeli R&D hot-house

Value of cross-border mergers and acquisitions with Israeli high-tech companies ($bn)



Sources: Giza Group; Hambrecht & Quist   * To date



Dan Barnea
chief executive, New Dimension

"If not for the shareholders, I would have dared to go further," said Mr Barnea. "But the huge financial burden of building sales channels discourages many Israeli companies from even trying. And being in Tel Aviv – far from key markets – just makes it harder."

Critics say Israeli entrepreneurs, who often lack marketing and management expertise, are so intimidated by the challenge of building a global company, they immediately succumb to acquisition offers. Some even urged the government to raise barriers to future takeovers.

But Nir Barkat, managing director of BRM Technologies, a US-Israeli investment firm that specialises in developing Israeli companies, said the solution is education.

"Israeli entrepreneurs do not know how to build up their companies," says Mr Barkat, whose firm has rejected offers for its holdings.

"The solution is to network with strong partners overseas to build a richer environment that increases the chances of success."

Supporters of the acquisitions say it is unreasonable to expect entrepreneurs or shareholders to resist lucrative offers. And many small start-ups which specialise in niche technologies would have little chance of surviving on their own.

"If shareholders want to sell, why shouldn't they?" says Zvi Schechter, managing director of the Giza Alex Brown venture capital fund in Tel Aviv. "It's best to specialise in what you are good at, and Israelis are good at the early stages of building a company."

To take their companies further, however, Israeli managers must get more aggressive, according to Charlie Ben Chabat, head of research at Robertson Stephens Evergreen, the investment bank's Tel Aviv branch.

"Many Israeli companies are afraid to take the financial risk needed to climb past a certain plateau," says Mr Ben Chabat.

"Israeli entrepreneurs have yet to show the business leadership needed to become global players."

NEWS DIGEST

ELECTRONICS

Siemens buys US network equipment specialist

Siemens, the German electronics group, has acquired privately-owned Redstone Communications, a US-based networking equipment specialist, as part of its drive to strengthen its position in the growing market for converged computer data and voice network equipment. The deal is the latest in a series of purchases by Siemens which earlier this month formed a new US-based company, Unisphere Solutions, to develop products for the fast growing internet-technology based networking equipment market.

Redstone, which is based in Westford, Massachusetts and was founded 18 months ago, is a leading developer of next generation IP routers. Volker Jung, in charge of Siemens information and communications division, declined to reveal how much Siemens paid for the US company, but acknowledged that the group has spent more than $1bn on acquisitions since the formation of Unisphere. Other US purchases include Argon Networks and Castle Networks, together with a stake in Accelerated networks. Siemens, like other traditional telecoms equipment manufacturers, has been scrambling to acquire the IP technology expertise which will be required to develop new products for the next generation of combined voice and data communications networks.

Meanwhile, Mr Jung also revealed yesterday that orders and sales in Siemens restructured information and communications group grew modestly in the five months from October. Orders increased to DM19.4bn (€9.91bn, $10.9bn) from DM19.2bn while sales grew to DM18bn from DM17.8bn. **Paul Taylor, Hanover**

INTEL

Microprocessor launched

Intel, the world's largest semiconductor group, yesterday launched its next generation microprocessor for the high power PC workstation and network server market incorporating the advanced multimedia capabilities built into its recently released Pentium III processor. The Pentium III Xeon microprocessor, which will initially be available in two versions, running at speeds of 500Mhz and 550Mhz, will enable more powerful servers to be built and will be particularly suited to machines designed as internet web servers and for handling electronic commerce transactions.

The new microprocessor will also enable computer companies to build more powerful PC workstations designed to compete head-to-head with machines built by Sun Microsystems and others which use different types of non-Intel microprocessors. Pat Gelsinger, Intel general manager, added that early sales of the Pentium III chip launched three weeks ago were in line with the groups expectations.**Paul Taylor**

ERICSSON

Epoc products on display

Ericsson showed off its first two products to utilise the Epoc operating system. The Swedish group, together with Nokia, Motorola and Psion, is a partner in Symbian, which owns Epoc, which was developed originally for Psion's hand-held computers. The Ericsson R380 is a small dual-band mobile phone with built-in palm-sized PC functionality. The company also introduced the MC218 mobile companion. The other Symbian partners are also developing Epoc-based products for launch this year which will see the long-awaited convergence of computers and phones. **Christopher Price**

DEFAULT FEARS FIRST TIME A PRIVATE COMPANY SAYS IT MIGHT NOT BE ABLE TO MEET FOREIGN PAYMENT

Brazilian cable operator warns over debts

By John Barham in São Paulo

The head of a struggling Brazilian cable TV operator has said his company might not be able to honour an $8m debt payment due in June.

This is the first time since the country began sinking into a deep recession, with January's 40 per cent devaluation of the Real, that a Brazilian company has said it might default on foreign debts. Hermano Lins de Albuquerque, chief executive of TV Filme, told analysts it was obvious the company would have to restructure its debt.

Observers are concerned that default on private-sector debt could disrupt Brazil's efforts to return to international capital markets.

Private companies and banks account for 60 per cent of the country's US$235.1bn foreign debt, say analysts, with $9.48bn in principal and interest on medium and long-term debt falling due in the first half of the year. Few companies have been able to refinance these loans, forcing them to repay debt as it falls due.

However, commentators say that unlike the indebted cable TV operators, most Brazilian companies carry relatively few debts.

TV Filme, part-owned by Editora Abril, the powerful Brazilian magazine publisher, has been in trouble for several years. It has tried to retire debt by repurchasing debt paper at just 15 per cent of face value, an implicit recognition of default. Creditors rejected the terms.

Standard & Poor's, the rating agency, has cut its rating to CC with a negative outlook, indicating a high probability of default.

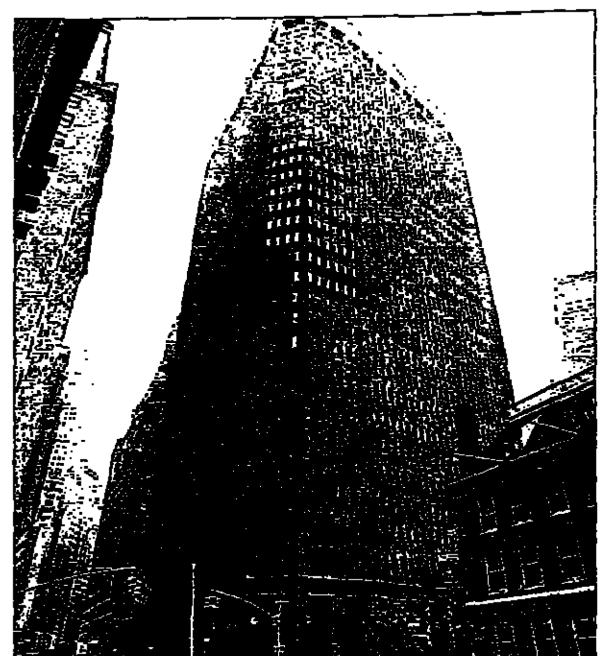
The nascent Brazilian cable TV industry suffered particularly badly as the country slid into recession last year, cutting its subscriber base and increasing the "churn" rate as existing clients switched to cheaper rivals.

January's devaluation made matters worse, since nearly all programme content is imported from the US and paid for in dollars. However, subscription revenues are in Reals.

Globo Cabo, the dominant cable operator owned by Globo Participacoes, the largest terrestrial TV company, is also in trouble. Its losses last year mounted from $8.9m to $270.2m, while its debts rose from $737.3m in the third quarter to $756.1m in the fourth.

Weighing up the value of one of banking's best brands

Investors have the chance to analyse Goldman Sachs as it prepares for its initial public offering. **Tracy Corrigan** reports



The Goldman Sachs building in Broad Street, New York AP

Investors weighing the option of buying a stake in Goldman Sachs, which filed for its initial public offering this week, can at last concentrate on the serious business of analysing *just what exactly is on offer*, when the IPO comes to the market in late May or early June.

Goldman has one of the best brands in the global investment banking business. Further, it has long been assumed to be one of the most profitable financial institutions. However, up *until now Goldman's* partnership structure has allowed the firm to present the world with only the most opaque financial details.

Goldman's stated earnings for 1998 of $2.9bn, for example, were initially reported before tax and payments to partners.

In fact, its pro rata earnings – that is, if it were a public company – would have been $1.3bn. Based on Goldman's equity capital base of $6.3bn, this represents a return on equity of just over 20 per cent. This is slightly more than Merrill Lynch's level and slightly less than Morgan Stanley Dean Witter achieved last year.

The financial data disclosed in the filing also provide a breakdown of revenues over recent years and give a much clearer picture of how Goldman makes its money.

Last year, Goldman had revenues of $3.4bn in investment banking (its advisory *and underwriting* businesses), $2.4bn in trading (including proprietary trading) and $2.7bn in asset management and secrities services.

Some detractors have argued that Goldman should trade at a substantial discount to rivals because it is more reliant on volatile trad*ing earnings*.

In fact, trading revenues accounted for just 28 per cent of Goldman's total revenues last year.

But this is misleading, because the market turmoil *surrounding* Russia's debt default and the near collapse of Long-Term Capital Management muddied the waters.

Goldman's trading business lost $663m in the fourth quarter and trading and principal investments "did not make a significant contribution to pre-tax earnings in 1998".

The firm "suffered losses from both the decline in the prices of corporate and high-yield debt instruments that it owned and the increase in the prices of the US Trea*sury securities in which the* firm owned short positions".

It also made losses in relative value trading positions, as well as suffering some losses in equity arbitrage.

In fact, the split in revenues in 1996 and 1997, when *trading* revenues accounted for 44 and 39 per cent of total revenues respectively, is more representative of the weighting of Goldman's three key businesses.

Of trading revenues, the vast bulk comes from the fixed income, currencies and commodities group – 65 and 70 per cent in 1996 and 1997 *respectively (though only 60* per cent last year, due to turbulent market conditions).

This suggests that while Goldman's pre-eminence as a mergers and acquisitions and equities house is well deserved, it is in fact more dependent on fixed income business than had previously been recognised.

And although it is hard to unravel the underlying trend from the effect of market turmoil, Goldman is seeking to lessen its reliance on trading revenues. "While we plan to continue to grow our *trading businesses, the* financial market shocks of the past year underscored the importance of our strategy to emphasise growth in our investment banking, asset management and secu*rities services* businesses.

Through a greater relative emphasis on these businesses we plan to gradually increase the stability of our earnings," the proxy states.

The next question is how far investors will factor such a planned shift into any valuation of Goldman. Morgan Stanley and Merrill, with more diverse businesses, are trading at multiples of close to 20 times this year's estimated earnings, and most people expect – particularly *given the typical discount* pricing of an IPO – that Goldman will have a lower p/e ratio, of perhaps 16 or 17 times this year's earnings.

Assuming a modest increase in last year's pro rata earnings to, say, $1.5bn – many analysts have not worked out official estimates yet – a multiple of even 16 times would give Goldman a market capitalisation of about $24bn.

If the stock market remains strong, the valua*tion of Goldman may get* quite close to the original lofty reckonings of $30bn, before the first effort at an IPO was pulled due to market conditions last year.

● Goldman disclosed in its *filing* that it estimates the total cost of implementing its Year 2000 effort will be $140m-$150m, over half of which has already been spent. The remaining portion of which will be spent in 1999 and early 2000.

Sumitomo to sell Goldman shares

By Naoko Nakamae in Tokyo

Sumitomo Bank, one of Japan's largest banks, is expected to make a profit of over $200m from sales of shares in Goldman Sachs.

Sumitomo is to sell 9m of its shares in the US investment bank, which announced its intention of going public on Tuesday, when it filed for an offering of 60m shares with the Securities and Exchange Commission.

Of the remainder, Goldman Sachs will sell 42m shares and Kamehameha Activities Association will sell 9m shares.

Goldman's shares are expected to be priced at $40-$50 per share, making the total sales value of Sumitomo's shares about $400m. This would leave Sumitomo with a profit of over $200m, according to a spokeswoman for the bank.

Sumitomo's $200m windfall will not come in time for its fiscal year-end on March 31, but will provide a welcome boost to its capital base.

Last week, Japan's Financial Reconstruction Committee, the body charged with bank reform, officially approved a plan to inject Y7,450bn into 15 banks. Sumitomo will receive Y501bn.

NORMA COHEN
THE PROPERTY MARKET

All change for the City

The Corporation of London is considering taking dramatic steps to ensure the capital remains a magnet for financial institutions

London has established itself as the capital of Europe's financial services industry, and it intends to stay that way. But with Frankfurt, *home of the new European* Central Bank, preparing to offer planning approval to a multitude of new skyscrapers, it is clear London cannot be complacent about its future.

Moreover, the City of London – the square mile which arguably houses its soul – is no longer the automatic first choice of financial institutions. Canary Wharf, some three miles to the east, has taken the lion's share of new bank headquarters' buildings, while the London borough of *Southwark is working hard* to encourage another massive development just across the Thames.

Thus, it should come as no surprise that the Corporation of London, the body which oversees City affairs, is taking some dramatic steps to ensure that the financial *institutions which are its* life's blood do not stray too far outside its borders.

Earlier this week, it emerged that the Corporation has agreed to consider "buying in" *leaseholds and freeholds it* owns around the City to make it easier for developers to acquire the type of sites which increasingly are only available outside the City's fringes.

Moreover, it has agreed in principle that tall buildings which do not obstruct protected views of St Paul's Cathedral are also appropriate.

"The health and vitality of this vital asset will be threatened unless we are prepared to encourage *development*," said Judith Mayhew, head of the Corporation's policy and resources committee, addressing a group of London developers at the annual MIPIM real estate conference in Cannes.

Stuart Lipton, chairman of Stanhope Properties and one of the City's most prolific developers, says the move to assist in site assembly is a *significant step forward for* the City. "What the City needs is sites. Most corporates don't want to be in the business of real estate. They don't want to get into planning or archaeological issues."

It is precisely this, along with considerations of cost and speed of development, that has propelled its traditional occupiers to new sites, particularly Canary Wharf.

Arguably, London could have slipped from its undisputed position as the *heart of Europe's financial* services industry had Canary Wharf not been built.

A 1985 report on London's future, entitled "All Change in the City" noted that demand for City space was spurred by the nature of its financial services industry and depended on physical *proximity to one's customers* and competitors. "The physical concentration of financial institutions in a small area affords possibilities of easy personal meetings between different representatives. These advantages result in a high *premium being set on City* locations."

But even then, financial services firms were drifting towards the City fringes, where rentals were lower.

The report cited a Richard Ellis study naming the City as the world's most expensive office market. By 1988, rents were as much as £80 per sq ft, and, with the spectre of Canary Wharf looming over it, the City had begun a wholesale relaxation of its planning regime.

Since Big Bang, in 1986, a third of the City has been *rebuilt and prime rents are* around £45 per square foot.

Meanwhile, technological innovation means that physical proximity counts for less and many of the City's grand old names of banking have been gobbled up by foreign competitors.

Some Corporation officials *heartily* espouse the view that Canary Wharf has helped cement Europe's financial services industry to the City, rather than detach it.

"*It's the environment of* the City which is important to us," a spokesman says. "It is right that the financial services industry is in London and has critical mass. The key thing is that *it exists under the brand* name of the City."

But Bill Hillier, chairman of Bartlett School of Graduate Studies at University College, London, argues that the types of physical spaces the City creates affect its role as a business magnet. Open spaces encourage people to congregate, providing the buzz of City life.

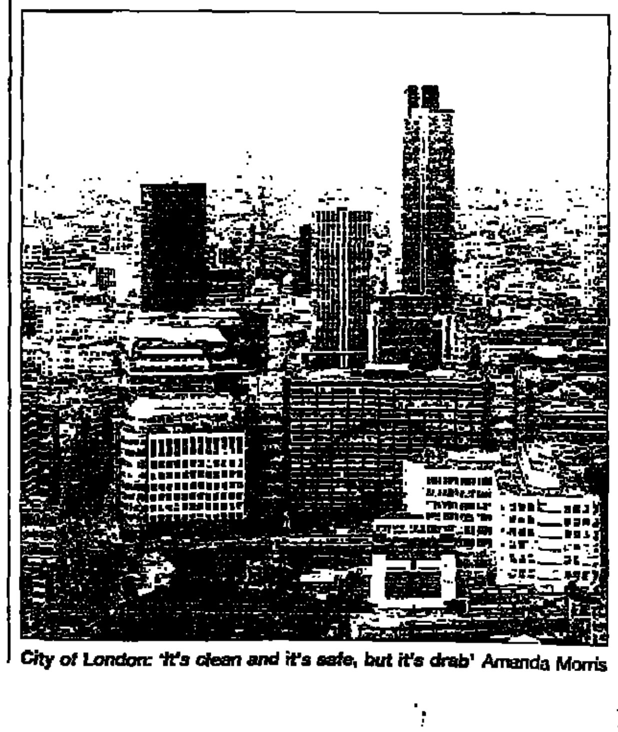
Meanwhile, he says, the entire planning process for new development in the City has been hamstrung by the authority which *architectural traditionalists* have had over development. The buildings which are today regarded as sacrosanct are products of the constant process of redevelopment which has occured over centuries in the City.

"What we want to preserve is the product of a process of replacement... the essence of culture and vitality."

Ms Mayhew insists that although the Corporation wants to encourage redevelopment "we wouldn't want to be allowed to level the City."

But Mr Lipton argues there is still far more the *Corporation can do to ensure* that the City remains a magnet for financial services firms. Projects with open spaces, art, shopping leisure and other activities should be encouraged. Greater consideration should be given to mixed-use development and the creation of shopping arcades, rather than a scattergun approach to retail development.

"In terms of fun life, the City is nothing," Mr Lipton says. "It's clean and it's safe, but it's *drab. Its restaurants* are few and expensive. Downtown New York fell apart because it became a daytime-only area."

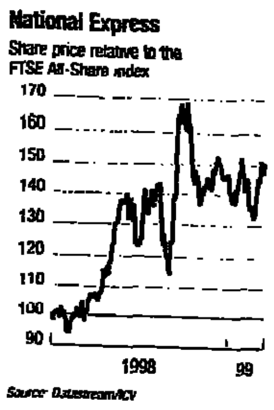


City of London: 'It's clean and it's safe, but it's drab' Amanda Morris

COMMENT

National Express

Rail privatisation has been very good to National Express. Its franchise bids assumed only modest growth in passenger volumes whereas these have actually shot up by 7½ per cent in 1998. There is no sign there of an economic softening. Clamping down on fare-dodgers may have helped, as well as the strong labour market. This level of growth may not be sustainable but the golden start means National Express should easily offset the decline in government subsidy. But the real excitement is the prospect of extensions to the rail franchises. If these are granted, the market may start to value the rail earnings as if they lasted indefinitely rather than just for the period of the licence.



The only worry is that National Express may be doing rather too well. Its buoyant results will certainly attract the government's interest as it pushes for a better deal for passengers. But, fortunately, National Express should be in good odour with ministers, as its franchises have generally scored well on reliability. Furthermore, Labour does not seem to object to profits so much any more, as long as the investment is there. And the government dares not push for punitive new performance targets. If the incumbents think they are too harsh and decide not to re-bid, new entrants may also take fright. That would leave ministers with the unpalatable task of running the railways itself – and taking all the flak.

BICC/Wassall

At last Wassall has come off the fence and offered some cash for BICC, one of the sorriest stories on the UK stock market. In 1994 the engineering group's market value reached £1.6bn; now Wassall is offering less than £400m – or about a tenth of last year's sales. BICC is a classic target for an aggressive conglomerate's management. Not only are the profit margins measly, but there are break-up issues to resolve. BICC's management is already considering selling its cables division, source of continual restructuring because of industry overcapacity. And if Tarmac can spin off its construction arm, why not the same treatment for BICC's Balfour Beatty?

Shareholders may well join BICC's management in rejecting Wassall's opening shot. But after 90 per cent underperformance of the market over five years, let the haggling begin.

Natl Express poised for large US buy

By Susanna Voyle

National Express, the rail, bus, coach and airports group, is understood to be close to agreeing a deal to buy a large US school bus operator.

The group – which yesterday announced a 77 per cent increase in annual pre-tax profits to £95.6m ($154m) with passenger increases across all divisions – already owns two companies that run the distinctive yellow school buses.

However, the deal is expected to give the group critical mass in a market estimated to be worth $13bn a year where only 33 per cent of the operators are in the private sector.

The group operates 1,750 buses, transporting 170,000 pupils a day after two acquisitions in the past six months that cost a total of £36.6m. If the group managed to gain control of 5,000 buses it would become the third biggest operator in the US.

National Express has been under pressure to make a big acquisition. The group is ungeared and ended last year with cash of £94.2m.

Phil White, chief executive, yesterday announced plans to invest £95m this year in new trains and buses, against the £54m it spent in 1998. He said the passenger growth achieved last year had continued into the first few months of 1999.

"These results prove that if you put money into public transport you gets returns and if you don't put money in you don't get quality of service – and should not be surprised if people use other modes of transport," he said.

There are 113 trains on order, worth more than £300m, with 93 planned to come into service this year. Some 46 of the trains are in excess of franchise requirements.

National Express, which holds five rail franchises, plans to ask the UK government for extensions on its Central Trains, Silverlink and ScotRail operations, which it holds until 2004.

Mr White welcomed last month's announcement from John Prescott, deputy prime minister, who offered longer franchises in return for performance improvements. The group's Midland Mainline and Gatwick Express franchises were negotiated on a longer basis.

National Express saw passenger growth of between 5 and 16 per cent across its rail operations, with miles travelled up 3.7 per cent to 49.5m. Turnover jumped from £754.7m to £918m, with operating profit up from £3.6m to £16.5m.

Group turnover rose 16 per cent to £1.32bn.

BICC rejects Wassall bid

By Richard Rivlin, Susanna Voyle and Michael Peel

BICC, the struggling cables and construction company, has rebuffed a £379.3m ($611m) cash offer from Wassall, the hybrid industrial conglomerate and venture capital group.

Wassall, which specialises in buying underperforming businesses suffering from a lack of investment, made the 90p a share offer to BICC on Friday. The company, which yesterday made public its approach, owns 9.3 per cent of BICC, a stake built up over more than a year at a cost of £34m. Chris Miller, Wassall chief executive, said he wanted BICC shareholders to know about the offer so they could make up their own minds. The group is expected to speak to leading BICC shareholders – who are based mainly in the US – over the next few days.

Wassall is keen to obtain a recommended bid, but BICC investors are expected to be looking for substantially in excess of 100p a share.

Alan Jones, the BICC chief executive who launched a restructuring when he was appointed in 1995, last night said his actions were starting to turn the group round. "This is not a firm offer", he said. "We discussed it carefully and firmly rejected it as it wholly undervalues the business." BICC is expected to make a formal statement today.

The offer is a premium of 57.9 per cent to the share price of BICC the day before Wassall's stake-building became public. The announcement was made after the market closed and BICC shares closed 1½p down at 82p. The shares have underperformed the FTSE All-Share index by 46 per cent over the past 12 months and by 89 per cent over the past five years.

Mr Miller said the offer was fair because the BICC price was already buoyed by his group's interest. He dismissed speculation that the group was trying to flush out a higher bid to increase the value of its stake.

Wassall is advised by NM Rothschild.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BNB Resources	Yr to Dec 31	142.7	(127.5)	2.3♠	(5.7)	4.8	(17)	5.2	May 21	5.2	7.6	7.6
Bourne End Props	Yr to Dec 31 ★	18.5	(17.7)	0.442♠	(0.444♠)	0.24†	(1.01)	0.65	July 2	0.85	1.2	1.2
British-Borneo	Yr to Dec 31	62.4	(56.2)	75.6L♠	(18.6♥)	31.02L†	(6.09)	nil	-	1.75	1	2.75
British Mohair	Yr to Dec 31	43.2	(42)	0.011L	(0.46♥)	0.61	(3.29)	2.6	May 17	2.6	4	4
Cobham	Yr to Dec 31	417.4	(347.1)	63.6	(52.3)	44.7†	(37.9)	10.6	July 2	9.2	15.25	13.25
Churchill China	Yr to Dec 31	50.8	(53.9)	1.47♥	(6.12♥)	9.4	(40.1)	nil	-	9.4	3	14.3
Dialog	Yr to Dec 31	170.8	(46.1)	5.56♠	(20.4L♠)	2.9	(20.5L)	-	-	-	-	-
Edinburgh Oil Gas	Yr to Dec 31	3.03	(4.37)	0.78L	(0.51)	2.23L	(1.45)	0.3	May 12	0.3	0.3	0.3
Fisher (James)	Yr to Dec 31 ★	63.5	(62.3)	3.85♠	(8.78♥)	5.76	(14.27)	2.35	May 14	2	3.75	3.2
Garban	Yr to Dec 31	327.8	(334.2)	49.6♥	(15)	67.8	(3.1)	15.8	May 27	-	15.8	-
Geest	Yr to Jan 2	522.1	(458.5)	28.1	(24.4)	30.3	(25.4)	7.2	July 2	6	12	10
Hanover Intl	Yr to Dec 31	21.4	(19.9)	3.47♥	(1.85♠)	16.8	(9.9)	0.9	June 25	0.5	1.5	1
HR Owen	Yr to Dec 31	406	(378)	6.01	(4.12)	23.9	(14.5)	5	May 13	4	10	8
Irish Life ♣	Yr to Dec 31 ★	1,097□	(925.4□)	175.1♥	(154.1)	45.26	(40.22)	10.2	Apr 1	9.3	14.5	13.2
Kwik-Fit	Yr to Feb 28	515.9	(472.8)	64.3♥	(55.1)	26	(22.3)	4.85	Apr 23	4.15	7.5	6.5
Laing (John)	Yr to Dec 31 ★	1,607	(1,461)	20.1	(32.2♥)	14	(25.7)	7	July 2	7	10.75	10.5
Ldn Edinburgh Pubφ	Yr to Dec 31	2.44	(0.623)	0.227	(1.02L)	0.95†	(3.34L)	-	-	-	-	-
Lopex	Yr to Dec 31	129.2	(116.5)	5.91♠	(3.95♠)	6.92	(4.35)	1	May 21	0.6	1.5	1
McAlpine (Alfred)	Yr to Dec 31	723.8	(659.4)	24.6♠	(20.8)	12.8	(16.8)	4.8	May 28	4.5	8	7.5
MDIS	Yr to Dec 31	133	(116.9)	3.97♥	(0.221♥)	3.19	(0.22)	0.375	July 9	nil	0.375	nil
Morrison (Wm)	Yr to Jan 31	2,534	(2,297)	174.9	(151.4)	14.08	(12.52)	2	May 14	1.7	2.45	2.1
National Express	Yr to Dec 31	1,322	(1,134)	97	(54.8♠)	66.5†	(34.2)	11.3	May 7	9.5	16	13.5
Oxford Molecular	Yr to Dec 31	21.5	(15.6)	1.23L	(0.256)	2.3L	(0.2)	-	-	-	-	-
Russell (Alex)	Yr to Dec 31	44.9	(42.8)	4.32	(2.8)	9.86	(6.72)	2.7	May 28	1.8	4	3
St James's Place	Yr to Dec 31 ※	634.3□	(273.4□)	86.3	(51.8)	14.9†	(9.1)	0.75	May 20	0.75	1.5	1.5
Thorpe (FW)	6 mths to Dec 31	13.4	(13.2)	1.36	(1.59)	7.27	(8.47)	1.5#	May 11	1.5	-	5.25
Town Centre Secs	6 mths to Dec 31	14.6	(14.7)	7.15	(5.88)	4.7	(3.5)	1.3	June 30	1.2	-	3.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ★Comparatives restated. ♣Irish currency. □Gross premiums written. φAim stock. ※Comparatives pro forma. #Excludes special.

Zeneca wins access to GM crop market in US deal

By David Pilling

Zeneca, the pharmaceuticals and agrochemicals business, has struck an agreement with Monsanto, the St Louis-based life science company, which will give it access to the rapidly growing US market for herbicides used with genetically-modified crops.

The out-of-court settlement will allow Zeneca to market its Touchdown herbicide for use with the US group's genetically modified crops, which have been accepted in the US in contrast to the hostility provoked in Europe. Monsanto estimates its brand of modified soya beans accounted for 35 per cent of the $15bn crop in 1998.

"This settlement relieves uncertainty," said James Culverwell at Merrill Lynch. "We were concerned that Zeneca might not be able to access the US." The shares rose 79p to £25.99.

The agreement brings to an end a dispute in which Monsanto had tried to prevent Zeneca marketing Touchdown as a substitute for Roundup herbicide, sold by Monsanto as part of a crop "system" with Roundup Ready soya beans, corn and cotton. These are genetically modified to resist Roundup herbicide, allowing the farmer to kill weeds without damaging the crop. Touchdown and Roundup are chemically similar.

The settlement with Zeneca is the sixth such deal struck by Monsanto within the past eight months. In January, it agreed to supply Dow AgroSciences, a unit of Dow Chemical, with its glyphosate herbicide – one of the key elements of Roundup. Glyphosate comes out of patent in the US in late-2000, although Monsanto still has patents over aspects of the Roundup formulation.

Although the terms of the deal were not disclosed, it is understood Zeneca will pay a licence fee in return for access to the US market. Zeneca described the fee as "modest". Monsanto was surprised at that description, arguing that Zeneca had clearly recognised its intellectual property rights.

Helicopter makers' moment of truth has yet to arrive

Yesterday's deal between Agusta of Italy and Westland heralds further consolidation in the industry, writes **Alexander Nicoll**

David Wright's prediction – "this will not complete the restructuring of the helicopter market" – can scarcely be disputed.

Helicopters, which make up a special enclave within the aerospace industry, require big investments in technology. But demand is limited: sales this year are estimated at $5bn in the western world. In spite of rationalisation which has already taken place, six manufacturers remain.

The planned pooling of GKN's Westland helicopter business with the Agusta interests of Finmeccanica of Italy will reduce the number to five, each with a remarkably symmetrical 20 per cent of the market. Mr Wright was yesterday designated chairman of the joint venture.

However, each of the participants has an intricate web of relationships with the others. Westland makes the Apache helicopter under licence from Boeing, and has a joint venture with the US company to supply Apache training under a £650m contract. Westland and Agusta have also produced helicopters under licence from Sikorsky, a subsidiary of United Technologies.

Agusta already has a joint venture with Bell Helicopter, a subsidiary of Textron of the US, and is a partner with Eurocopter, the Franco/German joint venture, in the four-nation NH-90 programme.

"Even after this deal," Mr Wright says, "people will still want to share in collaborative projects. That is a strong indicator that the market is not big enough to support all the participants independently."

Mr Wright, a GKN director, says issues of shareholder value will determine what will be the next move: whether it is a consolidation of the two European companies or a deeper partnership between one of them and a US group.

But for the time being, his focus will be on seeing the GKN/Agusta joint venture past regulatory hurdles and into existence, and then winning savings from it.

Westland's plant at Yeovil, Somerset is busy. It has a $6.3bn order book and is in full production of the EH-101, a medium-sized helicopter developed jointly with Agusta. It is supplying 44 EH-101 Merlin anti-submarine warfare models to the Royal Navy – although the prime contractor is Lockheed Martin of the US – and 22 transport models to the Royal Air Force. A total of 98 have been ordered. GKN will also deliver 67 WAH-64 Apache attack helicopters to the UK between 2000 and 2003.

Of the two partners, Agusta has a wider and newer range of models and probably better prospects for orders in the longer term. Its $2.2bn order book would receive a big boost if the French, German, Italian and Dutch governments this summer place an order for the first 150 NH-90 tactical transport helicopters.

Also promising is Agusta's joint venture with Bell. Its 45 per cent share is being brought into the GKN deal. This will give the new company greater opportunities in the civil market – currently all of Westland's helicopters and 80 per cent of Agusta are bought by military customers. The AB139, a transport-utility helicopter, and the BA609 with tilt rotor technology, both being developed with Bell, appear to be its models of the future.

"We're putting together something that has got a lot of strength in the immediate years with something that has a lot of strength downstream," Mr Wright says.

Westland, which employs 4,800, recruited 500 staff last year to cope with stepped-up production. Agusta has 5,200 staff but is, Mr Wright says, a more vertically integrated business. Each has only one helicopter assembly plant, but Agusta has a number of factories which feed parts into the assembly.

No plant closures are planned. The venture will seek to make savings by bringing together the two partners' purchasing activities to win greater leverage with suppliers, and by a rationalisation of production processes.

The venture is the second to underpin the future of GKN's defence businesses. Last year, a consortium which included its armoured vehicles division won a competition to supply the next generation of armoured personnel carriers. GKN promptly sold the division to Alvis of the UK, in which it took a 29 per cent stake. In helicopters, it will now have a 50 per cent stake which could eventually be diluted, come the further consolidation predicted by Mr Wright.

EURO PRICES

EQUITIES

Wall St and bonds fail to lift bourses

EUROPEAN OVERVIEW

By Florian Gimbel

European shares put in a lacklustre performance yesterday in spite of a rise on Wall Street and a fall in European bond yields. Oil stocks, however, continued to soar in response to higher oil prices.

The European Central Bank's decision to leave interest rates unchanged was announced after European markets had closed.

US shares and bonds were buoyed by a rise in jobless claims and low inflation figures, both allaying fears of higher inflation.

The US consumer price index rose only 0.1 per cent in February, reducing the likelihood of an interest rate rise by the Federal Reserve at its rate-setting committee meeting on March 30.

But the good news from the US failed to inspire the European markets, leaving the FTSE Eurotop index 3.42 lower. Activity was largely driven by the oil sector, with Brent for May delivery rallying 70 cents to $13.97. France's Elf added 1.48 per cent and Total 1.67 per cent.

Italy's Eni jumped 3.53 per cent to €5.94 in late trading as Eni's Agip was reported to have made the first private sector oil and gas discovery in Venezuela since the nationalisation of oil assets in 1976.

Deutsche Bank proved yesterday's loss leader, closing 2.05 per cent lower at €51. The shares were weighed down by the announcement of a larger than expected equity increase aimed at funding its recent takeover of Bankers Trust Corp.

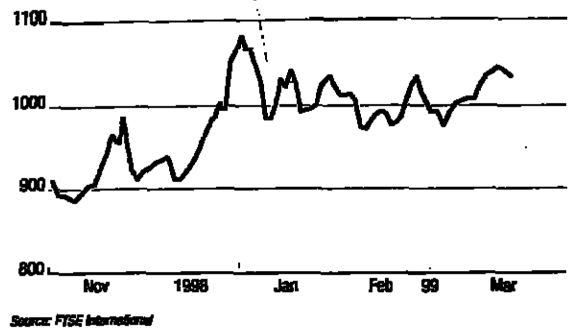
German investor sentiment received an additional damper from a fall in the Ifo business sentiment index for February, suggesting Germany was "technically in recession", as one analyst put it.

European small-cap stocks have become increasingly attractive, according to a report by BT Alex Brown. It claimed a shift towards small-cap stocks had occurred in recent weeks, with the broader Datastream European index outperforming the large-cap based FTSE&P index by 115 basis points at its peak.

The dividend yield on the broader index moved at a 9 per cent premium to the narrower index, suggesting there was greater value in the small-cap sector. But the report also warned of potential pitfalls, including a lack of liquidity and high exposure to cyclical downturns.

FTSE Eurobloc 100

Index



Source: FTSE International

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.110	97.150	+0.040	97.155	97.110	74977	184296
Sep	97.140	97.175	+0.040	97.180	97.140	44972	153471
Dec	96.900	96.940	+0.040	96.945	96.900	13446	94261
Mar	97.045	97.070	+0.035	97.080	97.040	15518	78599

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.115	97.150	+0.040	97.145	97.115	781	106164
Sep	97.145	97.175	+0.040	97.180	97.140	106	93035
Dec	96.925	96.940	+0.040	96.925	96.925	10	83451
Mar	97.075	97.070	+0.035	97.075	97.070	67	84289

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Jun	PUTS Sep	PUTS Dec	PUTS Mar
97125	0.100				0.075			
97250	0.045	0.095	0.075	0.140	0.145	0.170	0.385	0.320
97375	0.025				0.250			
97500	0.010	0.035	0.035	0.070	0.360	0.380	0.595	0.500

Est. vol. total, Calls 200 Puts 0. Previous day's open int., Calls 163764 Puts 96044

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	2877.0	2865.0	-25.0	2877.0	2852.0	2147	4746
Jun	2877.0	2872.0	-18.0	2877.0	2852.0	2679	2811

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3100 C	3100 P
Mar	170	2	119	2	88	2	24	10	4	42	2	92	2	143	2	
Apr	242	77	207	92	174	109	144	129	118	153	95	180	75	209		

Est. vol total 10 Prev day's open interest total 9,268. Premiums shown are based on settlement prices.

OTHER INDICES

	Mar 18	Mar 17	Mar 16	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3538.27	3558.57	3580.77	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3579.21	3589.16	3606.67	3685.36	2419.23	3685.36	2419.23
MSCI Europe	(u)	1222.06	1229.65	1315.55	905.59	1315.55	510.78

Source: Financial Times Information. *Subject to revision next day. (u) unavailable.

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FTSE Actuaries Share Indices — European series

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Mar 18

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Euro) €
FTSE Eurotop 300	1242.43	-0.27	-3.42	2.05	3.55	1283.03
FTSE Eurotop 100	2877.72	-0.39	-11.15	2.02	9.24	1034.97
FTSE Eurobloc 100	1036.52	-0.26	-2.73	1.93	1.02	1053.20
FTSE EuroMid	1220.95	-0.25	-3.00	2.71	3.50	1268.82
FTSE EuroMid Eurobloc	1162.70	-0.32	-3.83	2.32	2.01	1208.75
FTSE EuroMid Ex UK	1242.13	-0.06	-0.78	2.14	1.57	1266.74
FTSE Eurotop 300 Regions						
Eurobloc	1280.99	-0.21	-2.70	1.90	1.47	1320.16
UK	1186.07	-0.34	-4.01	2.57	7.87	1253.88
Europe Ex-Eurobloc	1204.52	-0.34	-4.17	2.21	5.63	1253.48
Europe Ex-UK	1275.23	-0.24	-3.10	1.78	1.14	1300.28
FTSE Eurotop Industry Sectors						
RESOURCES	1006.21	+2.50	+24.54	2.89	3.69	1056.71
Mining	921.20	-1.72	-16.15	3.94	21.37	963.80
Oil & Gas	971.86	+2.67	+25.30	2.65	2.82	998.83
BASIC INDUSTRIES	1106.75	-0.31	-3.47	2.58	2.55	1133.03
Chemicals	846.43	-0.05	-0.45	2.54	2.47	864.00
Construction & Bld Matls	1016.44	-1.28	-13.18	2.17	1.13	1026.52
Forestry & Paper	952.55	-0.04	-0.38	4.07	0.00	996.10
GENERAL INDUSTRIALS	1135.85	-1.18	-13.60	2.25	3.28	1163.45
Aerospace & Defence	758.25	-2.75	-21.47	2.24	2.89	771.44
Diversified Industrials	981.13	-1.28	-12.77	2.08	0.00	1003.57
Electronic & Elect Equip	1058.86	-0.08	-0.82	1.82	5.15	1068.12
Engineering & Machinery	1000.72	-2.25	-23.07	3.05	4.16	1018.76
CYCLICAL CONS GOODS	1281.11	+0.85	+10.77	2.26	0.60	1316.98
Automobiles	934.78	+0.38	+3.56	2.30	0.53	943.98
Household Goods & Texts	1370.38	+3.22	+42.81	2.08	0.00	1382.08
NON-CYC CONS GOODS	1201.40	-0.43	-5.14	1.51	2.75	1237.23
Beverages	929.85	-3.70	-35.75	2.68	0.00	949.93
Food Producers & Processrs	907.57	-0.35	-3.16	1.75	1.41	919.62
Health	990.50	+0.21	+2.07	1.20	0.00	1005.32
Packaging	811.13	+0.47	+3.79	1.11	0.00	812.14
Personal Care & Hse Prods	1093.74	+0.52	+5.66	0.92	0.00	1103.08
Pharmaceuticals	1094.87	-0.27	-2.95	1.21	3.25	1104.01
Tobacco	1322.03	+1.09	+14.26	3.76	7.11	1354.15
CYCLICAL SERVICES	1304.01	-0.45	-5.93	2.12	3.26	1345.52
Distributors	653.64	-0.17	-1.09	4.51	0.00	660.99
General Retailers	1073.41	-1.39	-15.13	2.26	1.27	1096.87
Leisure Entertmt & Hotels	985.51	-0.47	-4.67	2.02	8.72	1008.61
Media & Photography	1195.98	+0.06	+0.67	1.88	5.20	1213.85
Rests, Pubs & Breweries	870.48	-0.73	-6.42	3.28	3.71	899.82
Support Services	1057.86	-0.64	-6.80	1.12	1.10	1070.16
Transport	958.00	+0.97	+9.22	2.70	1.81	977.49
NON-CYCLICAL SERVS	1315.58	-0.91	-12.12	1.46	0.48	1354.57
Food & Drug Retailers	1004.34	-0.89	-9.07	2.14	0.51	1020.17
Telecommunications Servs	1305.19	-0.92	-12.07	1.33	0.43	1325.07
UTILITIES	1388.54	+0.26	+3.64	3.20	5.17	1477.79
Electricity	1054.76	+0.69	+7.25	3.33	4.44	1092.83
Gas Distribution	1176.85	-0.93	-11.10	1.65	1.00	1296.81
Water	865.66	-0.01	-0.08	5.83	5.94	912.24
FINANCIALS	1339.41	-0.60	-8.08	2.18	5.57	1391.93
Banks	955.51	-0.68	-6.51	2.58	5.82	975.35
Insurance	999.10	-0.49	-4.94	1.37	1.78	1012.97
Life Assurance	1118.94	-1.18	-13.40	1.78	0.96	1134.41
Investment Companies	1003.23	+0.42	+4.18	1.77	0.00	1027.29
Real Estate	711.55	-2.35	-17.11	3.49	1.67	731.78
Speciality & Other Fin	1002.68	+1.59	+15.68	2.24	0.00	1019.42
INFORMATION TECH	915.75	-1.31	-12.17	0.91	2.65	920.56
Information Tech Hardware	1006.62	-1.14	-11.63	1.02	3.71	1012.71
Software & Computer Serv	705.79	-1.88	-13.50	0.54	0.15	707.59

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Mar 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	(Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hungary	(Forint)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Poland	(Zloty)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Romania	(Leu)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Russia	(Rouble)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Slovakia	(Koruna)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas												
Argentina	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	(New Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific/Middle East/Africa												
Australia	(A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	(HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
India	(Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Indonesia	(Rupiah)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Israel	(Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia	(M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	(NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Saudi Arabia	(SR)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore	(S$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa	(R)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Korea	(Won)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Taiwan	(T$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand	(Bt)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UAE	(Dirham)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

BONDS

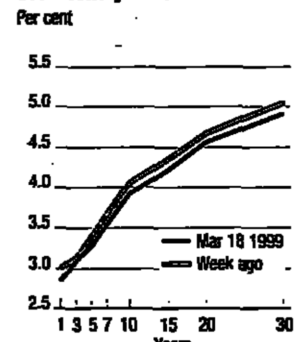
INTEREST RATE SWAPS

Mar 18	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.01	3.04	5.24	5.27	1.51	1.55	5.25	5.28	0.20	0.23
2 year	3.08	3.12	5.21	5.24	1.74	1.82	5.41	5.44	0.33	0.36
3 year	3.22	3.26	5.24	5.28	1.96	2.04	5.52	5.55	0.55	0.58
4 year	3.39	3.43	5.24	5.28	2.16	2.24	5.60	5.63	0.81	0.84
5 year	3.57	3.61	5.22	5.26	2.35	2.43	5.65	5.68	1.07	1.10
6 year	3.75	3.78	5.21	5.25	2.53	2.61	5.71	5.74	1.34	1.37
7 year	3.92	3.96	5.21	5.25	2.70	2.78	5.77	5.80	1.57	1.60
8 year	4.07	4.11	5.21	5.25	2.86	2.94	5.81	5.84	1.77	1.80
9 year	4.19	4.23	5.21	5.25	3.02	3.10	5.84	5.87	1.93	1.96
10 year	4.28	4.32	5.22	5.26	3.16	3.24	5.87	5.90	2.06	2.09
12 year	4.43	4.47	5.23	5.28	3.39	3.46	5.94	5.97	2.27	2.31
15 year	4.63	4.67	5.24	5.29	3.64	3.74	6.03	6.06	2.53	2.58
20 year	4.85	4.89	5.24	5.29	3.90	4.00	6.13	6.16	2.73	2.78
25 year	4.98	5.02	5.23	5.30	4.00	4.10	6.13	6.16	2.79	2.84
30 year	5.04	5.08	5.23	5.30	4.10	4.20	6.13	6.16	2.84	2.90

Bid and Ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Europe Limited.

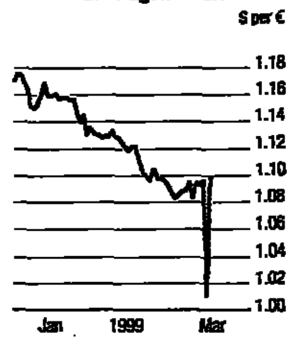
Euro bond yield curve

Per cent



Euro against the dollar

$ per €



Source: Interactive Data/FT Information

EURO-ZONE BONDS

Mar 18	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ SUPRANATIONALS								
ADB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eurofima	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ UTILITIES								
EDF	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TEPCO	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Quebec Hydro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norsk Hydro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ FINANCIALS								
Bad Wurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OKB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Credit Local	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Abbey Nat	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ INDUSTRIALS								
Unilever	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
McDonalds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philip Morris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BAT Int Fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ PFANDBRIEFE								
Rheinl Hyp	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eurohypo AG	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bayer Vereins	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Depfa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ HIGH YIELD								
Gebert	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Colt Telecom	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Impress Metal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Remy Cointreau	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Standard & Poor's ratings. Source: Interactive Data/FT Information

FTSE EUROTOP 300

AEROSPACE & DEFENCE [illegible]

AUTOMOBILES [illegible]

BANKS [illegible]

BEVERAGES [illegible]

CHEMICALS [illegible]

CONSTRUCTION & BUILDING [illegible]

DISTRIBUTORS [illegible]

DIVERSIFIED INDUSTRIALS [illegible]

ELECTRICITY [illegible]

ELECTRONIC & ELECTRICAL EQUIPT [illegible]

ENGINEERING & MACHINERY [illegible]

FOOD & DRUG RETAILERS [illegible]

FOOD PRODUCERS & PROCESSORS [illegible]

FORESTRY & PAPER [illegible]

GAS DISTRIBUTION [illegible]

GENERAL RETAILERS [illegible]

HEALTH [illegible]

HOUSEHOLD & TEXTILES [illegible]

I.T. HARDWARE [illegible]

INSURANCE [illegible]

INVESTMENT COMPANIES [illegible]

LEISURE ENTERTAINMENT & HOTELS [illegible]

LIFE ASSURANCE [illegible]

MEDIA & PHOTOGRAPHY [illegible]

MINING [illegible]

OIL & GAS [illegible]

PACKAGING [illegible]

PERSONAL & HOUSEHOLD PRODUCTS [illegible]

PHARMACEUTICALS [illegible]

REAL ESTATE [illegible]

RESTAURANTS PUBS & BREWERIES [illegible]

SOFTWARE & COMPUTER SERVICES [illegible]

SPECIALITY & OTHER FINANCE [illegible]

SUPPORT SERVICES [illegible]

TELECOMMUNICATION SERVICES [illegible]

TOBACCO [illegible]

TRANSPORT [illegible]

WATER [illegible]

Notes: [illegible]

CONTRACTS & TENDERS

The Democratic Republic of Congo
Ministry of Finance and Budget

TENDER FOR THE SELECTION OF A PRE-SHIPMENT INSPECTION COMPANY

The Government of the Democratic Republic of Congo invites sealed proposals from international reputable companies for the provision of PSI services covering imports.
Interested companies will be required to submit their bid in one original and five copies to the Conseil des Adjudications du Gouvernement C/o Direction des Marchés Publics; avenue de l'Ouganda no.4204, Gombe, Kinshasa in two separate sealed envelopes:
– Envelope "A" will contain technical data to be used for pre-qualification
– Envelope "B" will contain price proposals,

Tenders must be received at the above address **before 5 May 1999 at 10:00 am**, when public opening will take place.

Proposals should remain valid up to 5 July 1999. They must contain a Bid bond worth US Dollars $50,000 or its equivalent in convertible currency, established in the name of the Ministry of Finance and Budget. The Bid bond is liable to forfeiture, should the Bidder chose to withdraw his/her bid between the time of the public bids opening and the expiry of the validity period, or fail to accept and sign the contract established in terms with his/her proposal by the Ministry of Finance and Budget.

Interested Companies can obtain a copy of the Request for Proposals, through a formal request on Company stationary signed by an authorized representative, from:

Conseil des Adjudications du Gouvernement C/o Direction des Marchés Publics at the above address, upon payment of a non-refundable amount equivalent to US Dollars $10,000, payable in Congolese Francs into the account of the Accountant; avenue des Huileries no. 4404, (Cabinet du Ministre des Postes, Téléphones et Télécommunications), Gombe, Kinshasa.

For further information please contact the Office Congolais de Contrôle, 98 Av. du Port Kinshasa/Gombe, Fax: 243-1221974.

CESP Companhia Energetica de Sao Paulo
Companhia Aberta – C.N.P.J. 60.933.603/0001-78

PRIVATIZATION OF COMGAS

DIRECTIVE COUNCIL OF PRIVATIZATION STATE PROGRAM INVITATION TO BID NR. AS/F/805/99

SALES OF SHARES OF THE CAPITAL STOCK OF COMPANHIA DE GAS DE SAO PAULO

CESP – COMPANHIA ENERGETICA DE SAO PAULO, by itself and on behalf of Sao Paulo State Government in accordance with the provisions of the State Law Nr. 9,361, of July 5, 1996, discloses the conditions of the privatization of Companhia de Gas de Sao Paulo – COMGAS, by sales shares of its capital stock, for the MINIMUM PRICE FOR THE AUCTION of R$ 119,35 (One hundred nineteen reals and thirty five cents) for 1,000 (one thousand) shares, which auction will occur at 9h00 a.m. of April 14th 1999, at BOVESPA – Bolsa de Valores de Sao Paulo, located at Rua XV de Novembro, 275, City and State of Sao Paulo. The procedures for the sale of shares shall be governed by the provisions of the Invitation to Bid Nr. AS/F/805/99 and exhibits thereto, by the Instructions Manual of BOVESPA and by the deliberations of the DIRECTIVE COUNCIL OF PRIVATIZATION STATE PROGRAM.

The Invitation to Bid Nr. AS/F/805/99 and other documents will be available from March 17th, 1999 to March 26th, 1999, at addresses and schedules mentioned below, upon receipt confirmation in the amount of R$ 500,00 (five hundred reals) in BANESPA account: 0154 – 55 – 000778 – 8, Account Name: CESP Companhia Energetica de Sao Paulo.

CESP COMPANHIA ENERGETICA DE SAO PAULO
Supply Department – AS
Rua Bela Cintra, 847 – 2nd floor – Sao Paulo – SP
Phone Number: 55-11-3138-7242
Schedule: 8h30 to 11h30 and 13h30 to 16h00.

BOVESPA
Information Center of BOVESPA – CIB floor
Rua XV de Novembro, 275 – 5th floor
Sao Paulo – SP
Phone Number: 55-11.233 2178 or 233 22 61
Schedule: 9h00 to 18h00

BOVESPA – Office in Rio de Janeiro
Rua Sete de Setembro, 71 – 21st
Rio de Janeiro – RJ
Phone Number: 55.21.532-4616
Schedule: 9h00 to 18h00

Supply Department

CESP Companhia Energética de São Paulo — SECRETARIA DE ESTADO DE ENERGIA — GOVERNO DO ESTADO DE SÃO PAULO

INVITATIONS FOR BIDS

The Lithuania Road Administration now invites sealed bids from suppliers for the following contracts:

Lot 1: 2 units Truck (4x4) with the change over equipment for road maintenance works in summer and in winter.
Date of delivery to Lithuania - 150 days after the date of signing the Contract.

Lot 2: 1 unit High-performance, automated, single-lane, track mounted grade trimmer with re-claiming conveyor system.
Date of delivery to Lithuania - 60 days after the date of signing the Contract.

Tendering of contracts is open to international companies. Bidders are permitted to tender for one or both Lots.
Tender documentation packages may be obtained at the address below upon payment of a non-refundable fee of US $ 250 for every Lot (excluding bank tax) via an irrevocable bank cheque for foreign bidders, until March 31,1999.
If requested, the documents will be prom.ply despatched by air mail, but no liability can be accepted for loss of late delivery. Only parties who purchase the tender documentation packages will be considered eligible to submit the bids.
All bids must be delivered at the address given bellow before 11 a.m. local time on May 3. 1999 when they will be opened in the presence of the bidders' representatives who wish to attend.

Prospective bidders may obtain further information from and buy tender documentation packages by contacting Mr. Juozas Kondrotas. Director of State Property and Service Division, Lithuanian Road Administration, 36/2 Basanaviciaus Street, LT-2009 Vilnius, Lithuania.
Tel. +370-2-235849, +370-2-337565, fax +370-2-231362.

BUSINESSES FOR SALE

Fox Leisure

For Sale
As a Going Concern

ONE OF SCOTLAND'S PREMIER HOLIDAY PARKS LOCATED IN THE A9 CORRIDOR

A composite well rounded business developed over approximately 18 acres

* Developed with 215 Holiday Caravans (26 Touring and 189 Holiday Static)
* 9 Self-Catering Apartments
* Manager's Accommodation
* Swimming Pool and Sauna
* Restaurant and Lounge Bars

Freehold -Price on Application

Sole Selling Agents
FOX LEISURE
Tel: Glasgow 0141-353-3678
Tel: York 01904-693926
E-mail:
FoxLeisure@pan1-co.demon.co.uk

The Joint Administrative Receivers offer for sale the business and assets of Victor Cast Ware Limited which specialises in cast iron and chrome kitchenware/cookware:

- Turnover c.£3m
- Blue chip customer base
- Retail outlet in Birmingham
- Stock of c.£0.6m

For further information please contact Ian Best or Tom Lukic of Arthur Andersen, 1 Victoria Square, Birmingham B1 1BD.
Tel: 0121 233 2101.
Fax: 0121 643 7647.

ARTHUR ANDERSEN

Arthur Andersen is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

INTERNET & MULTI-MEDIA

Well established, profitable and rapidly growing company designing, developing and maintaining Web Sites for blue chip client base and major organisations.

Future potential may best be realised through strategic alliance or merger with major organisation in related areas.

Contact Box 6338, Financial Times, One Southwark Bridge, London, SE1 9HL

Motor Dealerships For Sale

- Established 1983
- Established reputation & product portfolio
- Two prime freehold sites based along M4 corridor
- Substantial repeat & passing trade
- Strong asset base & profitable trading record

Box B5337, Financial Times, One Southwark Bridge, London SE1 9HL

KPMG

Grosvenor Lifestyles PLC

The Joint Administrative Receivers offer for sale the business and assets of this provider of quality services to the leisure industry.

Principal features include:

- Grosvenor Spas – management of quality health facilities at several hotel locations
- A superior gym facility at Aylesbury (with over 350 members)
- Management contracts with prestigious clients (over 3000 members)
- 70% interest in Grosvenor Inglewood Limited – the management company of the Inglewood Health Hydro facility.

For further information, please contact Chris Laverty or Irvin Cohen at: KPMG, 20 Farringdon Street, London EC4A 4PP. Telephone 0171 311 1000 or Fax 0171 311 3607

KPMG Corporate Recovery
KPMG Corporate Recovery is a division of KPMG which is authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business.

HUMBERTS LEISURE

On the instructions of Holiday Club Pontin's
Chichester, West Sussex

Profitable holiday village

- 121 holiday chalets & 51 hotel bedrooms (about 388 guest bed spaces)
- Substantial central licensed clubhouse
- Heated swimming pool and leisure facilities
- 22 staff bedroom units & 2 staff houses
- In all about 2 ha (5 acres)

For sale freehold

12 BOLTON STREET MAYFAIR LONDON W1Y 7PA
TEL: 0171 629 6700 FAX: 0171 409 0475
email: info@humberts-leisure.com

CHARTERED SURVEYORS LEISURE BUSINESS SPECIALISTS

KPMG

Morris Hanbury Jackson LeMay Limited

The Joint Administrative Receivers offer for sale the business and assets of Morris Hanbury Jackson LeMay Limited, Yalding, near Maidstone, Kent, a long established hop merchant, purchasing hops and hop products for sale to the national and international markets.

Key features:

- c.£5m turnover per annum
- extensive worldwide customer base
- well-developed specialist hop processing machinery and equipment
- freehold operational site in Yalding, near Maidstone
- freehold investment property in Paddock Wood, Kent
- wholly owned trading American subsidiary
- Stocks c.£1.5m
- 14 employees

For further information contact Stephen Treharne, Joint Administrative Receiver at: KPMG, Arlington Business Park, Theale, Reading RG7 4SD. Telephone 0118 964 2253 or Fax 0118 964 2284.

KPMG Corporate Recovery
KPMG Corporate Recovery is a division of KPMG which is authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business.

The Joint Administrators Gary Bell and Richard W Traynor offer for sale the business and assets of

GOLDEN HILL GARAGE LTD

- New car franchise and second hand car dealership.
- Freehold site in Lancashire, comprising workshop, showrooms and offices. Total net internal floor area 338.5 sq.m.
- Established 10 years, 8 employees.
- Estimated turnover £1.8 million p.a. Approximately 20% of turnover represented by new car sales.

For further information please contact
Gary Bell at Begbies Traynor,
Elliot House,
151 Deansgate,
Manchester M3 2BD
Tel: 0161 839 0900
Fax: 0161 832 7436

BEGBIES TRAYNOR

LEGAL NOTICE

LOWLINE (RUSTLER) LIMITED
Registered number: 1663001
Former company name: FOUNDFORCE LIMITED
Nature of business: Shipping
Trade classification: 30
Date of appointment of Joint Administrative Receivers: 12 March 1999
Name of appointer: The Royal Bank of Scotland
MICHAEL DAVID GERCKE and
JOHN DICKSON LAURIE
Joint Administrative Receivers
(office holder nos 2360 and 5623) of
PricewaterhouseCoopers, No 1 London Bridge,
London SE1 9QL

LEGAL NOTICE

No. 00741 of 1999

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
CROMWELL CLEANING COMPANY
(LONDON) LIMITED
- and -
IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 3rd March 1999 confirming the reduction of the capital of the above-named Company from £2,391,904 divided into 2,391,904 Ordinary Shares of £1 each to £100,000 divided into 100,000 Ordinary Shares of £1 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 10 March 1999.

DATED this 19 day of March 1999

Nabarro Nathanson
The Anchorage
34 Bridge Street
Reading
Solicitors for the Company

No. 340 of 1999

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
THE STATIONERY OFFICE GROUP
LIMITED
- and -
IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 4 March 1999 presented to Her Majesty's High Court of Justice for (a) the sanctioning of a scheme of arrangement and (b) the confirmation of the reduction of capital of the above named company from £1,558,600 to nil.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Judge at the Royal Courts of Justice, Strand, London, WC2A 2LL on Monday, 29 March 1999.

ANY creditor or shareholder of the said company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned solicitors on payment of the regulated charge for the same.

DATED the 19th day of March 1999

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA
Tel: 0171 638 1111
SAW/70S00060/1023415
Solicitors for the above-named Company

CONTRACTS & TENDERS

BANK OF CRETE S.A.
CALL FOR EXPRESSIONS OF INTEREST IN PURCHASING THE TOTAL ASSETS OF ECON INDUSTRIES S.A.

Bank of Crete S.A. (15 Voukourestiou Street, Athens 106 71), as special liquidator of the company ECON INDUSTRIES S.A. established at Marcopoulo in Attica, (hereafter "the company") which has been placed under special liquidation as per article 46 of Law 1892/90 by Decision No. 7164/1998 of the Athens Court of Appeal, invites interested buyers to submit within twenty(20) days from the date of publication of the present, a non-binding expression of interest in purchasing the assets of the company mentioned below.

BRIEF DESCRIPTION

The company was founded in 1969. In May 1997, it ceased to operate and on 22-07-98 it was placed in special liquidation in accordance with article 46a of Law 1892/90. The company used to manufacture and sell engineering, electro-optical and electronic products.

ASSETS FOR SALE

In order to purchase the assets of the above company, now in special liquidation, prospective buyers may submit:

Either an offer for the purchase of the total assets or a separate offer for the purchase of one or of the company's functional entities as listed below. With regard to the third entity which contains items that do not serve the company's functional requirements, it is to be noted that offers may be submitted for separate assets listed in it (Para. 11 article 46a of Law 1892/90 as supplemented by article 53 of Law 2224/94).

A. FIRST ENTITY

An industrial complex in the municipality of Marcopoulo in Attica, on a plot of land about 50,000 m2 in area with buildings covering about 3,800m2 and 1,500m2 under construction(concrete panels) with the factory's electromechanical equipment which consists of:

1) A Fitting Shop
2) An Optical Department which contains optical coating equipment and auxiliary measuring and checking equipment.
3) An Electronics Department which contains equipment for fabricating and checking printed circuit boards and other electro-optical elements.
4) A Quality Control Department
5) A workshop with small, conventional machine tools and equipment for processing metal surfaces and small presses.
6) Air conditioning installations, electrical firefighting equipment, a telephone exchange and security systems.

Also for sale are the company name and trademark.

B. SECOND ENTITY

An industrial complex in the in the precincts of the municipality of Spata in Attica, in a plot of land of about 52,800 m2 with buildings covering about 4,800 m2 with screw and bolt manufacturing machinery.

C. THIRD ENTITY

Includes non-functional assets of the company in liquidation such as:

1) 2,377,110 shares with a nominal value of 500 drachmas each, out of a total of 4,332,600 shares, with a total share capital of Drs. 2,166,300,000, representing a 54.87% ownership by ECON INDUSTRIES in "ELVIEMEK" (Hellenic Explosives and Ammunition Industry S.A.) established at Amaroussion in Attica

2) 163,200 shares with a nominal value of 1,000 drachmas each, out of a total share capital of 570,000,000 drachmas representing a 28.63% ownership by ECON INDUSTRIES in EPIRUS FOUNDRIES S.A. established at Likotrihi in Yannina.

3) 778,039 shares with a nominal value of 1,000 drachmas each out of a total share capital of 778,039,000 drachmas, representing a 100% ownership by ECON INDUSTRIES S.A. in "MEKAVO" (Metallic Constructions of Volos S.A.) established in the 1st industrial Zone of Volos.

The specific content of the above entities will be contained in the Offering Memorandum and in the Call for Tenders which is to follow.

SALE PROCEDURE

The sale will be made through a public call for tenders in accordance with the provisions of article 46a of Law 1892/1990 (as supplemented by article 14 of Law 2000/1991 and later amended) and the terms of the relative call for tenders which will be published in the Greek and foreign press within the time limits required by law.

SUBMISSION OF EXPRESSIONS OF INTEREST - INFORMATION

In order to submit expressions of interest and to receive the detailed offering memorandum and additional information, interested parties should apply to:

BANK OF CRETE
15 Voukourestiou Street, 106 71 Athens, Greece
Tel. (301) 3628301-4 Fax: (301) 3631113
(attn: Messrs. Zach. Kasmaridis - Nich. Stassinos)
or to the company's head offices at
MARCOPOULO, ATTICA
Tel. (30299) 40533 and (30299) 40534
(att: Messrs. Zach. Kasmaridis - Nich. Stassinos)

APPOINTMENTS

SALESPERSON

This leading international financial services company wishes to appoint a Salesperson for Convertible Bonds to deal with equity markets and trade convertibles in the USA, London and the Far East. Client focus will primarily be US-based hedge funds and knowledge and specific work experience in this region is essential. Duties will also include developing spreadsheets and valuation models as well as regular contact with customer base in the USA. Applicants must have in-depth knowledge of fixed income products, retail and institutional sales and trading flow experience, as well a degree in Finance. Salary circa £40,000.

Please write, enclosing full curriculum vitae, to Box A6813 Financial Times, One Southwark Bridge, London SE1 9HL

PUBLIC NOTICE

NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SUBSECTIONS 8(5) AND 10(6) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby gives notice as follows.

1. He proposes to grant to CityLink Telecommunications Limited ("the Licensee") a licence under the Telecommunications Act 1984 ("the Act") to run telecommunications systems for Project Connect: a Government Private Finance Initiative to ensure that London Underground Limited (LUL) receive the modern transmission and radio services its railway business requires. The Licence will be for a period of 25 years subject to earlier revocation in specified circumstances.

2. The principal effect of the licence will be to enable CTL to install and run a telecommunication system for the provision of a wide range of telecommunication services to LUL (and any successor train operating company), the British Transport Police, any person providing services to LUL (or any successor train operating company) relating to the operation of the London Underground (for example, future infrastructure companies proposed under the Government's Public-Private Partnership (PPP) proposals), any sub-contractors who are engaged in the construction, maintenance, operation or safety of the London Underground and emergency organisations who might need to respond to incidents on the Underground.

3. The Secretary of State proposes to apply the Telecommunications Code ("the Code") to CTL subject to certain exceptions and conditions in a restricted geographical area. The effect of the exceptions and conditions to the application of the Code is that the Licensee will have duties:

(a) to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or only on such above-ground apparatus as is already installed for any purpose;

(b) to comply with conditions designed to ensure efficiency and economy on the part of the Licensee, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of its apparatus;

(c) to consult certain public bodies before executing particular powers under the Code, including the local planning and highway authorities, English Nature and the National Trust, as well as relevant electricity suppliers;

(d) to keep and make available records of the location of underground apparatus and copies of the exceptions and conditions in the licence to their powers under the Code; and

(e) to ensure that sufficient funds are available to meet certain liabilities arising from the execution of works.

4. The reason why the Secretary of State proposes to apply the Code to CTL is because he does not consider it practicable for the system to be installed in the envisaged timescales without its application and because it appears to him that the running of the system will benefit the public.

5. The reason why it is proposed that the Code as applied should have effect subject to certain exceptions and conditions referred to above are that they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible, and that the Licensee can meet (and relevant persons can enforce) liabilities arising from the execution of works.

6. Representations or objections may be made in respect of the proposed licence, the application of the Code to CTL and the exceptions and conditions referred to above. They should be made in writing by Thursday 15th April 1999 and addressed to the undersigned at the Department of Trade and Industry, Communications and Information Industries Directorate, 275/Grey, 151 Buckingham Palace Road, London, SW1W 9SS. Copies of the proposed licence can be freely obtained by writing to the Department or by calling 0171-215 1785.

Roger Close 19 March 1999
Department of Trade and Industry

Liffe hits out at CFTC rule change plans

By Nikki Tait in Boca Raton, Florida

The London International Financial Futures and Options Exchange yesterday criticised rules that would govern the access of non-US electronic futures exchanges to US customers, claiming they were "blatantly discriminatory" and would keep Liffe out of the US market until at least 2000.

"This does nothing to allow us to put screens here," said Brian Williamson, Liffe chairman. He said the proposed rules – issued this week and now out for a 30-day comment period – were "deliberately complicated" and "obstructive".

"It's blatant discrimination against one foreign exchange", he said.

Liffe has been developing a new electronic trading platform called Liffe Connect, and is spending an estimated $5m to put communications hubs in Chicago and New York, allowing US customers and traders direct access the system. Mr Williamson said yesterday this expenditure would now be put on hold.

However, Brooksley Born, chair of the Commodity Future Trading Commission, which issued the draft rules, took issue with Mr Williamson's timetable, saying she had "no reason to think" Liffe would be unable to obtain access this year.

Ms Born declined to say if the "comment period" might be extended, suggesting this might depend on how divergent the views were.

The CFTC's proposals have been eagerly awaited by a number of non-US exchanges, which have generally been ahead of US futures markets in switching to screen-based trading.

At present, the only non-US exchange to have direct electronic access to US customers is Eurex, the biggest European exchange and Liffe's main rival, which was allow to install some US-based screens before the US regulator imposed a freeze while it drew up the new rules.

Matif, the French exchange, is also able to make products available under its electronic trading link with the Chicago Mercantile Exchange.

The rules are designed to allow foreign electronic exchanges relatively easy access to the US, provided they are covered by an adequate regulatory system in their home market. But the draft rules were more complicated than some would have liked, and even some CFTC commissioners expressed reservations about their complexity.

The Chicago Board of Trade and others have said they will ask for an extension to the 30-day comment period. Neither of the big Chicago exchanges, which would probably face greater competition if non-US electronic exchanges entered the US market, have commented on the rules in detail.

Mr Williamson added that, apart from Liffe, US investment and trading firms would also have been hampered because of reduced access to short-term European interest rate contracts. "What the CFTC has done is make the competitive position of US firms worse."

US inflation data lift prices

BENCHMARK BONDS
By Arkady Ostrovsky

Government bond prices rose yesterday as a result of weak inflation data in the US and a decline in business confidence in Germany.

The US consumer price index, which excludes food and energy, rose 0.1 per cent in February, putting annual core inflation at 2.1 per cent, its lowest since the 1960s, according to Phyllis Reed, at Barclays Capital.

These figures supported comments earlier this month by Alan Greenspan, Federal Reserve chairman, that the US was not facing inflationary pressures despite a strong economic growth.

"The idea that we have the lowest inflation at a time of high growth suggests a new growth paradigm," said Ms Reed.

The bond markets are so bullish that they have completely ignored a recent rebound in oil prices, which is usually associated with inflation, said Ian Douglas at Warburg Dillon Read.

US Treasury prices picked up after the release of fresh balance of trade and inflation data.

The January trade deficit in reached a record $16.99bn on a 2 per cent increase in imports and a 1.4 per cent fall in exports.

The data were considered important since analysts said they were a reason to trim back estimates of first-quarter gross domestic product, a bullish sign for bond investors.

By early afternoon the benchmark 30-year bond was up 7/8 to 96 9/32, sending the yield down to 5.474 per cent. Among shorter term issues the 10-year note was up 1/4 to 97 3/32, yielding 5.088 per cent, and the two-year note was up 1/8 at 100 1/32, yielding 4.965 per cent.

US Treasuries led European markets higher, with the 10-year June Germany bund future rising 0.15 to 114.61. The short end of the market was also higher as the Ifo business confidence index declined.

Though the European Central Bank left interest rates unchanged at its meeting yesterday, the markets seem convinced that it will cut rates in the next quarter; the short euro interest rate future indicates a rate cut of almost 25 basis points by June.

"The ECB report is a bit of a mixed bag, with something for everybody. The consensus is that they will cut by 25 basis points in the second quarter, and the market is fully priced for this," said Mr Douglas at Warburg Dillon Read.

The 10-year UK gilt future was little changed at 117.70 but the short sterling future rose 8 points and the market is now pricing in a 50 basis-point cut in UK interest rates in the next six months.

Field left open for smaller deals

NEW ISSUES
By Edward Luce, Capital Markets Editor

Spread widening caused by the recent oversupply of corporate bonds kept the big names away from the primary markets yesterday, leaving the field open to a clutch of smaller, structured offerings.

Spa Nord Bank, a Danish bank that specialises in lending to pig farmers, won the distinction of offering Europe's first junior subordinated bond in several weeks.

Demand for the €40m offering, which was priced at 200 basis points over the floating-rate benchmark, was taken as evidence that Europe's credit markets were open for business again.

Spa Nord Bank is unrated but has an implied senior rating of BBB, say traders. About half the book went to Danish investors, according said an official at J.P. Morgan, lead manager.

The offering follows subordinated bonds by a number of highly-rated UK banks this year, including the Royal Bank of Scotland and Lloyds. Other upper tier two deals are expected in the next few weeks.

Hannover Re, the German reinsurance company, also launched a subordinated deal, which bankers said was only the third transaction of its kind by a reinsurance company.

Proceeds from the $400m step-up bond, lead managed by J.P. Morgan and Morgan Stanley, will help finance Hannover's recent takeover of Clarindon, a US insurance company. The bond was launched at a spread of 80 basis points over Libor.

"Insurance companies have made very little use of the bond markets compared with banks, and we expect this to change," said one official.

Capital Shopping Centres, the UK property company that owns a number of large out-of-town shopping centres including Lakeside Thurrock and MetroCentre, visited the markets for the second time with a £150m offering.

The 10-year bond, offered to yield 140 basis points over gilts, follows its £200m 15-year debut last year. Dresdner Kleinwort Benson was joint lead manager with Barclays Capital.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Fannie Mae(a)‡	2bn	5.125#	(a1)	Feb 2004	-	-	B Stearns/GSachs/Merrill
Hannover Finance Inc(b)‡	400	(b1)	100.00R	Mar 2029	0.625R	-	JP Morgan/M Stanley
International Endesa	350	6.00	99.256R	Apr 2009	0.325R	+90(4⅞%Nov08)	Deutsche Bank
Jackson Natl Life Funding‡	300	(c)	99.734R	Apr 2004	0.20R	-	Morgan Stanley DW
FAMLT 1999-1, Cls A1(d)‡	85	6.66(f)	99.984375	Apr 2016	0.40	-	Lehman Brothers
Banco Hipotecario(e)	100	12.25#	100.00	Mar 2002	0.875	-	Salomon Smith Barney
EUROS							
Landesbank Islandsk‡	52	(g)	99.90	Apr 2004	0.20	-	JP Morgan Securities
STERLING							
Capital Shopping Centres	150	5.754(k)	99.264R	Mar 2009	0.375R	+140(Dec09)	Barclays/Dresdner KB

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ‡Unlisted. ‡ Floating-rate note. #Semi-annual. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $4bn. Plus 42 days accrued. a1) Priced today. b) Call from Mar 09 at par. b1) 6-mth Libor +80bp to Mar 09, then +180bp. c) 3-mth Libor +20bp. d) First Alliance Mortgage Loan Trust. Plus 16 days accrued. Pays monthly. d1) Class A2: $30m, 1M, +32bp, par, Jul 2013. f) With 1-yr detachable warrants to identical notes at par. g) 3-mth Euribor +25bp. j) Long 1st coupon. k) Short 1st coupon.

NEWS DIGEST

HIGH-YIELD BONDS

Greek pharmaceuticals group to raise €100m

Lavipharm, a fast-growing Greek pharmaceuticals group that controls a US-based research and development company, plans to raise €100m through a high-yield bond in the first euro-denominated issue by a Greek company. The bond would have a 10-year maturity with an interest rate "probably very close to 10 per cent", said Tania Vranopoulou, Lavipharm's head of corporate affairs. It will be mainly placed with European institutional investors.

SBC Warburg Dillon Read, the international investment bank, is lead manager for the issue, with SG Paribas, the French bank, as co-manager. Lavipharm is Greece's biggest wholesale pharmaceutical company with group sales last year of Dr70bn ($240m). It has invested heavily in research and development of transdermal patches, which release medication through the skin.

It is listed on the Athens stock exchange but Lavipharm decided against raising funds through a capital increase. Except for offerings by banks, liquidity is restricted on the Athens market, and few companies attempt to raise more than Dr10bn to Dr15bn through rights issues.

Ms Vranopoulou said about 90 per cent of the funds raised would be used to restructure existing debt. "We have a complex debt structure in several currencies with a lot of short-term maturities. The bond issue will help streamline the group's financial structure," she said. Lavipharm is among a handful of Greek companies that have issued junk bonds, but is the first to launch an issue on the European market. **Kerin Hope, Athens**

DEVELOPING COUNTRY AID

Swiss form development bank

The Swiss government, under pressure to increase aid to developing countries, has set up what is believed to be the first privately-controlled emerging market development bank. It has taken a 49 per cent stake in the Swiss Development Finance Corporation and outsourced management to a private investment manager. SDFC will perform many of the functions of the International Finance Corporation, the World Bank's private equity arm, and bilateral financial institutions such as the UK Commonwealth Development Corporation. The Federal Office for Foreign Trade, part of the Swiss economics ministry, will invest a maximum of SFr49m and expects the private sector to at least match its contribution.

Hugo Huber, an ex-World Bank official and former head of structured and project finance at UBS, heads Swiss Emerging Markets Partners, which will manage SDFC. Management fees will be tied to the success of investments. SDFC's target is a net return of 7 per cent and its primary goal is to help developing countries attract capital and know-how. It also aims to help small and medium sized Swiss companies set up operations in emerging markets. **William Hall, Zurich**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 18	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.5605	4.91	+0.02	-0.15	+0.01	-0.08
	08/08	8.750	124.3566	5.42	+0.03	-0.17	+0.08	-0.29
Austria	03/01	5.250	104.1600	3.04	-0.04	-0.10	-0.03	-0.99
	01/08	5.000	106.8600	4.05	-0.04	-0.08	+0.02	-0.88
Belgium	03/01	5.000	103.7500	3.05	-0.03	-	+0.12	-0.96
	03/09	3.750	98.7100	4.16	-0.03	-0.08	+0.07	-0.78
Canada	12/00	5.000	99.8600	5.08	-	-0.01	+0.07	+0.18
	06/08	6.000	105.7500	5.20	-0.01	-0.04	+0.08	-0.15
Denmark	11/00	9.000	108.8300	3.35	-0.04	-0.09	-0.16	-0.82
	11/09	6.000	113.9900	4.33	-0.03	-0.15	+0.12	-0.78
Finland	06/00	4.000	101.2100	2.98	-0.02	-0.06	-0.03	-0.58
	04/09	5.000	106.7990	4.16	-0.01	-0.13	+0.06	-0.65
France	07/00	4.000	101.2900	2.96	-0.03	-0.06	-0.06	-0.97
	04/06	7.250	122.4600	3.60	-0.02	-0.10	+0.01	-1.00
	04/09	*4.000*	*99.8000*	*4.02*	*-0.02*	*-0.10*	*+0.06*	*-0.85*
	04/29	5.500	108.7300	4.94	-	-0.08	+0.08	-0.48
Germany	05/01	5.000	104.1500	2.98	-0.02	-0.03	+0.02	-0.85
	01/06	6.000	113.4400	3.72	-0.04	-0.08	+0.03	-0.93
	01/09	3.750	98.6600	3.92	-0.02	-0.10	-	-0.93
	07/28	4.750	97.4500	4.91	-0.01	-0.07	+0.05	-0.51
Greece	03/00	9.800	100.6901	9.03	-0.03	-0.21	-0.43	-2.54
	01/09	6.300	102.9000	5.90	+0.02	-0.07	-0.26	-2.49
Ireland	10/01	6.500	108.2800	3.11	-0.06	-0.08	-0.08	-1.32
	08/08	6.000	114.7000	4.08	-0.08	-0.14	-0.02	-0.93
Italy	07/01	4.500	103.0600	3.09	-0.02	-0.08	-0.04	-1.38
	07/03	4.500	104.3500	3.41	-0.04	-0.12	-0.06	-1.39
	05/08	4.500	103.0300	4.13	-0.02	-0.13	+0.03	-0.98
	11/27	*6.500*	*120.6000*	*5.12*	*-0.02*	*-0.12*	*+0.08*	*-0.51*
Japan	12/00	6.900	111.5710	0.23	-0.01	-0.05	-0.15	-0.36
	12/03	4.100	114.8390	0.90	-0.02	-0.07	-0.32	-0.26
	08/08	1.800	100.9590	1.69	-0.01	-0.07	-0.23	+0.12
	09/18	2.300	98.0320	2.56	-0.04	-0.12	-0.29	+0.18
Netherlands	01/01	9.000	110.4000	3.00	-0.03	-0.08	+0.02	-0.93
	07/09	3.750	97.5200	4.05	-0.02	-0.13	+0.06	-0.78
New Zealand	02/01	8.000	105.4857	4.89	+0.03	-0.18	-0.06	-2.73
	07/09	7.000	109.6154	5.75	+0.04	-0.20	+0.15	-1.09
Norway	05/01	7.000	104.4000	4.82	-0.09	-0.10	-0.10	+0.47
	05/09	5.500	105.7000	4.78	-0.08	-0.23	-0.07	-0.46
Portugal	03/00	5.375	102.4300	2.87	-0.02	-0.09	-0.25	-1.14
	06/08	5.375	108.3600	4.13	-0.03	-0.12	+0.04	-0.90
Spain	01/01	5.000	103.6800	2.93	-0.03	-0.07	-0.03	-1.18
	07/09	5.150	106.3700	4.37	-0.03	-0.15	+0.30	-0.64
Sweden	05/00	10.250	107.5812	3.20	-0.07	-0.15	-0.05	-1.44
	05/08	6.500	116.2120	4.31	+0.01	-0.17	+0.11	-0.95
Switzerland	06/00	4.500	103.6500	1.43	+0.01	+0.02	+0.04	-0.16
	01/08	4.250	116.5700	2.16	-0.02	+0.01	-0.18	-0.59
UK	11/01	7.000	105.4700	4.76	-0.05	-0.14	+0.06	-1.95
	12/03	6.500	108.2400	4.54	-0.04	-0.16	+0.04	-1.51
	12/09	5.750	111.2500	4.42	-	-0.14	-0.09	-1.51
	12/28	6.000	125.7700	4.43	-	-0.14	+0.05	-1.41
US	01/01	4.500	99.1474	4.98	-0.03	-0.08	+0.05	-0.54
	02/04	4.750	98.8233	5.02	-0.03	-0.14	+0.01	-0.61
	11/08	4.750	97.2950	5.11	-0.02	-0.10	+0.01	-0.54
	02/29	*5.250*	*96.5738*	*5.48*	*-0.03*	*-0.08*	*-0.02*	*-0.44*

London closing. * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Mar 18	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.43	+1.49	+0.32	Netherlands	4.05	+0.11	-1.06
Austria	4.21	+0.27	-0.90	New Zealand	5.74	+1.80	+0.63
Belgium	4.15	+0.21	-0.96	Norway	4.77	+0.83	-0.34
Canada	5.21	+1.27	+0.10	Portugal	4.20	+0.26	-0.91
Denmark	4.31	+0.37	-0.80	Spain	4.26	+0.32	-0.85
Finland	4.16	+0.22	-0.95	Sweden	4.34	+0.40	-0.77
France	4.01	+0.07	-1.10	Switzerland	2.36	-1.58	-2.75
Germany	3.94	-	-1.17	UK	4.53	+0.59	-0.58
Greece	5.86	+1.92	+0.75	US	5.11	+1.17	-
Ireland	4.14	+0.20	-0.97				
Italy	4.16	+0.22	-0.95				
Japan	1.73	-2.21	-3.38				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Mar 18	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	95.7652	8.66	+0.04	-0.13	+3.66
Poland	07/04	7.125	BBB-	103.2945	6.36	-0.04	+0.59	+1.33
Russia	06/07	10.000	n/a	28.0000	40.69	-0.28	+2.58	+35.61
LATIN AMERICA								
Argentina	09/27	9.750	BB	84.7500	11.56	-0.11	-0.23	+8.13
Brazil	05/27	10.125	B+	69.0000	14.79	-0.21	-0.28	+9.34
Mexico	05/26	11.500	BB	111.8750	10.20	-0.06	-0.36	+4.77
ASIA								
China	07/06	7.750	BBB+	101.7500	7.42	-0.05	-0.18	+2.36
Philippines	10/16	8.750	BB+	94.2500	9.43	-0.06	+0.12	+4.19
Thailand	04/07	7.750	BBB-	102.0000	7.41	+0.05	-0.51	+2.33
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.9427	7.50	+0.05	+1.61	+2.55
South Africa	10/06	8.375	BB+	97.4897	8.83	+0.04	-0.75	+3.77
Turkey	09/07	10.000	B	91.5620	11.59	-0.01	-0.31	+6.51
BRADY BONDS								
Argentina	03/23	5.750	BB	70.7500	8.99	-0.05	-0.09	+2.61
Brazil	04/14	5.000	B+	61.0000	13.74	-0.19	-0.34	+8.54
Mexico	12/19	6.250	BB	78.6968	8.44	-0.02	-0.19	+3.14
Venezuela	03/20	6.750	B+	66.1250	10.88	-0.09	-0.10	+5.56

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	95.37	95.45	+0.08	95.62	95.32	31,733	72,677

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
97	-	-	0.26	-	-	-
98	-	-	0.13	3.45	3.49	-
99	-	-	0.06	4.45	4.45	-
100	-	-	0.03	5.45	5.45	-

Est. vol. total, Calls n/a Puts n/a. Previous day's open int., Calls n/a Puts n/a.

Germany

NOTIONAL EURO BUND FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114.45	114.61	+0.15	114.73	114.34	517,812	536,836
Sep	114.66	114.79	+0.19	114.80	114.66	1,213	1,672

NOTIONAL EURO BUND (BOBL) FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	*108.91*	*108.91*	-	*109.06*	*108.84*	*186,387*	*206,334*

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113.62	113.85	+0.22	113.97	113.52	8139	36369

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	98.10	98.33	+0.16	98.36	98.06	14,059	15,888

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	108.75	+0.07	-	-	0	63
Jun	-	108.48	+0.07	-	-	0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	117.10	117.13	+0.02	117.10	117.00	295	6106
Jun	117.70	117.70	+0.02	117.97	117.44	37197	73038

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11700	1.74	2.50	1.04	1.80
11750	1.45	2.24	1.25	2.04
11800	1.21	2.01	1.51	2.31
11850	1.02	1.77	1.82	2.57
11900	0.81	1.56	2.11	2.86
11950	0.64	1.38	2.44	3.18

Est. vol. total, Calls 250 Puts 1496. Previous day's open int., Calls 12896 Puts 10338

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	122-10	122-15	+0-08	122-22	122-09	10,675	-
Jun	121-24	121-30	+0-07	122-07	121-23	349,502	-
Sep	121-31	-	-	-	-	1,199	-

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	131.55	131.60	-	131.70	131.51	706	n/a
Sep	-	130.60	-	-	-	0	n/a

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	107.90	107.85	+1.03	107.90	107.90	1	20

US CORPORATE BONDS

Mar 17	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.5533	5.70	+0.02	+0.20	+5.70
NY Tel	08/25	7.00	A+	99.4387	7.04	+0.01	-0.01	+1.54
CWE	05/08	8.00	BBB	112.6383	6.16	+0.01	+0.07	+1.03
FINANCIALS								
GECC	05/07	8.75	AAA	117.6976	5.97	+0.01	+0.05	+0.84
Banc One	08/02	7.25	A	104.3129	5.81	+0.02	+0.09	+5.81
CNA Fin	01/18	6.95	A-	94.3526	7.51	+0.02	+0.33	+2.01
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0097	5.69	+0.08	-0.16	+1.19
Wal Mart	05/02	6.75	AA	103.8178	5.41	+0.02	+0.25	+5.41
Dayton Hud	06/21	9.70	A-	133.0105	6.79	+0.02	+0.04	+1.29
AGENCIES								
FHLMC	04/07	7.14	N/A	108.7470	5.78	+0.01	+0.10	+0.63
SLMA	03/00	7.50	N/A	102.1934	5.15	-0.02	-0.04	+0.65
FNMA	02/18	8.95	N/A	132.4455	6.04	+0.02	-	+0.54
FFCB	06/06	8.95	N/A	119.0401	5.68	+0.01	+0.08	+0.55
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.1250	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.5000	0.00	-	-	-
Pacalta	06/04	10.75	B-	84.0000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	5.00
Broker loan rate	6½	Two month	-	Three year	5.00
Fed.funds	4¾	Three month	4.51	Five year	5.03
Fed.funds at intervention	-	Six month	4.64	10-year	5.11
		One year	4.71	30-year	5.49

INTERNATIONAL BONDS

Mar 18	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
$								
EIB	*04/07*	*7.250*	AAA	109.1348	5.80	-0.04	+0.16	+0.72
ABN Amro	06/07	7.125	AA-	104.8145	6.35	-0.02	+0.08	+1.27
Quebec	01/07	7.000	A+	106.3720	5.97	+0.03	-0.06	+0.89
Citicorp FRN	02/04	5.068	AA-	99.2046	5.25	-0.02	-0.46	+0.22
C$								
Bayer L-Bk	08/04	9.500	AAA	117.2468	5.68	-	+0.07	+0.22
Toronto (M of)	05/04	8.500	AA+	112.5007	5.64	-	+0.12	+0.18
Bell Canada	07/99	10.625	A+	101.4312	5.54	-0.02	+0.05	+1.20
Deutsche B FRN	09/02	5.875	AA+	100.4479	5.73	-0.02	+0.07	+0.28
£								
EIB	12/07	7.625	AAA	117.2850	5.11	-0.01	+0.02	+0.49
Dresdner Bk	12/07	7.750	AA-	112.2735	5.90	-0.01	-0.01	+1.28
British Gas	03/00	7.625	A+	102.0287	5.52	-0.08	-0.08	+0.70
Abbey Nat FRN	02/02	5.587	AA	100.0362	4.26	-0.04	-0.05	-0.39
SFR								
EIB	01/08	3.750	AAA	104.6852	3.13	-0.02	-0.19	+0.95
Brit Columbia	02/02	3.250	AA	103.6886	1.93	+0.01	+0.01	+0.28
Hydro-Quebec	05/01	6.750	n/a	108.6562	2.58	+0.01	+0.03	+1.04
Gen Elect.	09/01	1.711	n/a	99.7677	1.53	+0.01	+0.03	-0.01
YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.2165	0.46	-0.01	-0.15	-0.02
Spain (Kingdom)	03/02	5.750	AA	115.5938	0.50	-0.03	-0.25	+0.02
Cred Foncier	*08/02*	*4.750*	A	112.5678	*0.85*	*-0.01*	*-0.24*	+0.47
Italy (Rep of)	07/99	0.516	AA	100.0407	0.19	-	-	+0.03
A$								
IBRD (World Bk)	02/08	6.000	AAA	102.3822	5.65	+0.03	-0.09	+0.23
Nw Sth Wales Tr	05/08	6.500	n/a	104.6682	5.69	+0.04	-0.06	+0.36
S. Aus Gov Fin	06/03	7.750	AA	107.6052	5.68	+0.03	-0.08	+0.58
GMAC Aust	05/01	9.000	n/a	106.8221	5.55	+0.02	-0.09	+0.60

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Government Securities — UK Indices

Price Indices UK Gilts	Thu Mar 18	Day's chge %	Accrued interest	xd adj ytd	Total Return	Yield	Duration Years	% Weight
1 Up to 5 years (16)	121.18	+0.09	1.83	2.15	1207.98	4.71	2.30	34.03
2 5-10 years (11)	171.46	+0.07	3.17	1.06	1338.76	4.59	5.86	29.41
3 10-15 years (7)	184.76	-0.01	1.47	2.65	1457.48	4.56	8.73	13.46
4 5-15 years (18)	175.31	+0.05	2.66	1.53	1371.36	4.58	6.76	42.87
5 Over 15 years (4)	231.56	-0.03	2.99	1.23	1582.61	4.54	11.91	22.33
6 Irredeemables (4)	323.33	-0.22	4.26	1.07	1882.54	4.68	21.59	0.78
7 All stocks (42)	168.05	+0.04	2.43	1.83	1357.64	4.58	6.50	100.00

Index-linked	Thu Mar 18	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	224.06	-0.02	1.01	1.26	1170.10	14.81
2 Over 5 years (9)	260.80	-0.20	1.25	2.15	1416.67	85.19
3 5-15 years (5)	242.80	-0.14	1.02	2.03	1314.41	42.70
4 Over 15 years (4)	277.57	-0.26	1.50	2.29	1611.97	42.49
5 All stocks (11)	254.05	-0.17	1.21	2.00	1381.40	100.00

Yield indices	Mar 18	Mar 17	Yr ago	Yield indices	Mar 18	Mar 17	Yr ago
5 yrs	4.61	4.64	6.29	Irred †	4.66	4.67	6.00
10 yrs	4.56	4.56	5.90	Med. 15 yrs	4.57	4.57	5.90
15 yrs	4.55	4.55	5.80	High 15 yrs	4.65	4.67	6.00
20 yrs	4.56	4.55	5.87				

Real yield	Inflation 0% Mar 18	Dur yrs	Mar 17	Yr ago	Inflation 5% Mar 18	Dur yrs	Mar 17	Yr ago
Up to 5 yrs	3.11	3.28	3.11	3.85	2.35	3.29	2.34	2.78
Over 5 yrs	2.00	13.31	1.98	3.12	1.81	13.40	1.79	2.69
5-15 yrs	2.00	9.67	2.00	3.22	1.60	9.71	1.78	2.67
Over 15 yrs	1.96	17.03	1.94	3.08	1.81	17.11	1.80	2.90
All stocks	2.04	11.78	2.03	3.14	1.83	11.87	1.82	2.89

Coupon Bands: Medium 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Mar 18	Mar 17	Mar 16	Mar 15	Mar 12	Yr ago	High*	Low*
Govt. Secs. (UK)	116.32	116.19	115.72	115.23	115.26	103.8	117.17	93.31
Fixed Interest	154.91	154.89	154.24	153.97	153.92	140.86	158.49	115.32

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UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five to Fifteen Years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Over Fifteen Years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Undated	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-Linked	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES & MONEY

Euro tossed around by waves of data

MARKETS REPORT

By Alan Beattie and Melanie Carroll

The euro was buffeted around yesterday as a weak German business confidence survey and a yawning US trade deficit pushed it first down and then up.

The Ifo business confidence survey arrived at the time of maximum impact, as market nerves were heightened by the European Central Bank policy meeting.

In the event the data did not convince the ECB to defy market expectations and cut rates, the no-change decision after the end of the European trading session causing the euro to blip up in a desultory fashion.

The Ifo survey, released early in European trading, showed German business confidence weaker than expected. Despite the apparent reluctance of the ECB to set interest rates based on the German industrial sector, the euro fell on the news, breaking down below the $1.10 level as the market shaved another few basis points off the expected level of euro-zone interest rates in coming months.

But the euro recovered some of its losses later in the day when the US trade deficit unexpectedly widened to $16.99bn, threatening the sustainability of the US current account deficit.

The euro closed at $1.099 against the dollar at the end of London trading. It fell to Y129.4 against the yen, which continued to strengthen on rumours of large end-of-year capital inflows to Japan. The dollar also weakened against the yen, to close at Y117.8

■ Analysts said that much of the reaction to the Ifo survey and the US trade data was knee-jerk, and that neither was particularly useful as a guide to future moves in interest rates.

"The market's focus on the German industrial sector as a proxy for the rest of the euro-zone is misplaced," said David Bloom of HSBC in London.

"It is a mistake to look at no more than 30 per cent of one economy which itself makes up only 30 per cent of the total," he added.

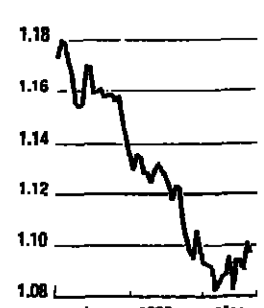
Mr Bloom said that consumption in the euro-zone would be stronger than the market expected in 1999, with lower interest rates contributing to a falling savings ratio and real wage growth set to pick up.

Meanwhile, the well-publicised problems with the US trade numbers, which have shown a marked seasonal pattern even after the seasonal adjustment process, have rendered them much less useful as an economic indicator, analysts said.

"It is impossible to know how much of the swing in the deficit reflects the unwinding of the seasonal quirk, which depresses the Q4 deficit and lifts Q1, and how much is real," said Ian Shepherdson, US economist at High Frequency Economics in Valhalla, New York.

Euro

Against the dollar ($ per €)



Source: Datastream/ICV

■ The Swedish krona followed its Norwegian counterpart higher yesterday, after falling earlier in the week.

The krona has had a difficult week, in which it was hit by the release of two opinion polls showing weakening support for Sweden to join EMU. Peter Lindqvist, analyst at HSBC in Stockholm, said the opinion polls had prevented the krona from strengthening relative to the Norwegian krone.

But, after weakening early in yesterday's European trading session on the latest of the two polls, it followed the Norwegian currency higher. Rising oil prices, as the prospect grows of an OPEC agreement finally having some effect on world oil production, was believed to be the reason for the Norwegian krone's rise.

After opening just below the SKr9.00 level against the euro in London yesterday, the Swedish krona fell to SKr9.02 before climbing to close in London at SKr8.934. The Norwegian krone closed one per cent higher against the euro at NKr8.461.

Mr Lindqvist said he thought Sweden would vote in favour of joining Emu in 2002 in next year's referendum. He expected the krona to be at about SKr8.50 by that time. Unlike in the UK, the expected entry rate is higher than the current spot rate, so rising Emu entry expectations tend to drive the Swedish krona higher.

The Norwegian krone was also due for a rally, having been driven unfairly low recently by weak oil prices, he said.

■ POUND IN NEW YORK

Mar 18	—Latest—	— Prev. close —
£ spot	1.6305	1.6300
1 mth	1.6299	1.6293
3 mth	1.6294	1.6287
1 yr	1.6322	1.6310

■ OTHER CURRENCIES

Mar 18	£	$
Czech Rp	56.1642 - 56.2541	34.4650 - 34.4990
Hungary	376.894 - 377.614	231.280 - 231.580
Iran	4891.80 - 4888.80	3000.00 - 3000.00
Kuwait	0.4956 - 0.4962	0.3041 - 0.3043
Peru	5.4526 - 5.4625	3.3460 - 3.3500
Poland	6.3564 - 6.3756	3.9000 - 3.9100
Russia	39.4200 - 39.5257	24.1900 - 24.2400
U.A.E.	5.9847 - 5.9892	3.6725 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Mar 18		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.4166	+0.0468	075 - 256	20.4256	20.2942	20.3765	2.4	20.3024	2.2	19.9903	2.1	102.6
Belgium*	(BFr)	59.8536	+0.1371	270 - 801	59.8801	59.4940	59.7359	2.4	59.5186	2.2	58.6038	2.1	102.2
Denmark	(DKr)	11.0293	+0.0290	226 - 359	11.0359	10.9610	11.0106	2.0	10.9755	1.9	10.8335	1.8	105.5
Finland*	(FM)	8.8219	+0.0202	179 - 258	8.8258	8.7690	8.8045	2.4	8.7725	2.2	8.6377	2.1	81.0
France*	(FFr)	9.7336	+0.0222	283 - 369	9.7369	9.6742	9.7134	2.4	9.6781	2.2	9.5293	2.1	105.5
Germany*	(DM)	2.9019	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria*	(Sch)	12.5247	+0.0244	230 - 264	12.5344	12.4404	12.5047	1.9	12.4634	2.0	12.2504	2.2	102.4
Belgium*	(BFr)	36.7177	+0.0717	127 - 227	36.7460	36.4700	36.659	1.9	36.538	2.0	35.9136	2.2	102.4
Denmark	(DKr)	6.7660	+0.0155	640 - 680	6.7705	6.7172	6.757	1.6	6.7378	1.7	6.639	1.9	104.8
Finland*	(FM)	5.4119	+0.0106	111 - 126	5.4160	5.3754	5.4032	1.9	5.3854	2.0	5.2934	2.2	80.5
France*	(FFr)	5.9706	+0.0117	698 - 714	5.9752	5.9304	5.961	1.9	5.9413	2.0	5.8398	2.2	105.1

WORLD INTEREST RATES

MONEY RATES

Mar 18	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Euro-zone	[illegible]	[illegible]	3	[illegible]	[illegible]	-	3.00	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	5	[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	[illegible]	5	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.72	4.77	4.83	5.01	-	-	-
Euro Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
BBA Euro Libor	-	[illegible]	[illegible]	3	[illegible]	-	-	-
Euro Euribor	-	3.037	3.032	3.010	3.019	-	-	-
EONIA	2.95	-	-	-	-	-	-	-
EURONIA	2.9565	-	-	-	-	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Bid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Mar 18	Short term	7 days notice	One month	Three months	Six months	One year
Euro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5½ - 5
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EUROBOR FUTURES (MATIF)

■ THREE MONTH EUROBOR FUTURES (LIFFE) €1m 100 - rate

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

■ EUROBOR OPTIONS (LIFFE) €1m 100 - rate

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100 - rate

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100 - rate

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate

(The data in these tables are [illegible].)

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

(Mar 18; table data [illegible].)

■ D-MARK FUTURES (CME) DM 125,000 per DM

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

■ STERLING FUTURES (CME) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
94750	0.245	0.370	0.350	0.055	0.090	0.280
94875	0.165			0.100		
95000	0.100	0.210	0.230	0.160	0.180	0.420
95125	0.060			0.245		
95250	0.035	0.100	0.140	0.345	0.320	0.580
95375	0.020			0.455		

Est. vol. total, Calls 37654 Puts 17896. Previous day's open int., Calls 419790 Puts 437308

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

■ US TREASURY BILL FUTURES (CME) $1m per 100%

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

AUSTRALIAN MINERALS ABARE CONFERENCE WARNED OF FIRST FALL IN SEVEN YEARS

Exploration spending 'to tumble'

By Stephen Wyatt and Gwen Robinson in Canberra

Australian minerals and exploration expenditure is likely to tumble 30 per cent to A$1.5bn (US$940m) this year, the first fall in seven years, according to the Australian Bureau of Agricultural and Resources Economics (Abare).

Such a decline would not be easily reversed, Tom Waring, Abare minerals and energy analyst, told the bureau's annual commodities outlook conference in Canberra.

Mining executives at the conference acknowledged that companies risked reducing their long-term asset base if they dramatically cut expenditure, but said there were significant pressures to do so, particularly from investors.

The current downturn in exploration worldwide appeared to reflect world minerals market trends and expectations, rather than shorter-term price trends, Mr Waring said.

Any improvement in real prices for minerals and energy, in Australian dollar terms, over the next five years would not be sufficient to restore investor confidence and attract increased funds into exploration, he warned.

More than 90 per cent of Australia's exploration expenditure is directed to three commodities: petroleum, gold and base metals.

Petroleum (oil and gas) accounted for 50 per cent of total exploration expenditure in the year to last June. Gold accounted for 32 per cent and base metals (nickel, copper, zinc, lead and silver) for 11 per cent.

For petroleum exploration alone, expenditure is expected to fall by 30 per cent from A$981m last year to about A$700m this year.

In gold, exploration expenditure fell 11 per cent last year and is expected to continue falling to historically low levels in the next five years, Mr Waring said.

Gold production would not be significantly affected by reduced exploration spending for two to three years.

In 2001, however, the number of new projects coming on stream will slow. As a result, Australian gold production is forecast to decline by about 7 per cent in the years to June 2004.

For base metals, real expenditure remained stable over the past six years, at between A$203m and A$255m annually. But it is expected to fall "significantly" in the current year to June and possibly in the subsequent two years.

The steady fall in exploration expenditure could constrain the rate of minerals resource development in Australia over the medium term, Abare warned.

Mr Waring and other minerals and energy experts at the conference also stressed the importance of native title issues to future minerals and energy investment in Australia.

Executives of some of the country's largest mining companies, including Normandy Mining, Australia's largest gold producer, said native title problems increased the difficulties of gaining access to certain areas.

Miners fight for survival

By Stephen Wyatt

Asian economic turmoil has left Australia's base metal producers fighting for survival, metals industry executives told the Abare conference yesterday.

There has been significant structural change in the Australian industry, and several companies have either closed or been taken over. But after the inevitable consolidation, a leaner Australian industry should perform well, the executives said.

"The survivors will "emerge with a strong competitive advantage over producers elsewhere in the world," said Rod Webster, managing director and chief executive of Western Metals.

However, the Australian industry needed to change. "Despite having been through a period of sustained high prices, particularly in the case of copper, this industry has managed only meagre returns, and in most cases actually destroyed shareholder value," Mr Webster said.

The poor market outlook and relative poor performance of base metal producers have caused a rapid contraction in the industry.

In 1997, there were 17 companies producing copper and 10 producing lead and zinc. In the year to June 2000, Mr Webster predicted the group would be reduced to 10 and five, respectively.

For the survivors and new entrants, survival has required significant reinvestment to expand production and reduce unit costs.

The six leading base metal companies – Pasminco, MIM Holdings, Western Metals, WMC, North, BHP and Normandy Mining – have invested almost A$6bn (US$3.8bn) in new and expanded mines and associated processing facilities.

As a result of the new investment, Abare forecasts that mine production of all three base metals and refinery production of copper will rise sharply.

Digging in: After the inevitable consolidation, a leaner industry should perform well

Australian copper mine production in the year to June 2001 is projected to rise 43 per cent from last year's levels to 830,000 tonnes.

Zinc mine production is projected to rise 6 per cent to 1.55m tonnes of contained zinc in the year to June 2004, while Abare sees lead mine production increasing by about 2 per cent to 715,000 tonnes of contained lead in the same period.

Refinery production of all three metals is projected to peak in 2002 as the planned expansions and new facilities come on stream.

Refined zinc production is forecast to reach 500,000 tonnes in the year to June 2001, a rise of 60 per cent on the levels to June last year, while refined lead production is projected at 250,000 tonnes, a 30 per cent increase.

Australian refined copper output is expected to more than double over the next three years to 660,000 tonnes.

These sharp increases in production will boost Australian export earnings.

Australia's earnings from exports of copper, lead and zinc are projected to increase by 23 per cent from a forecast A$2.8bn in the current year to June to A$3.5bn in the year to June 2004.

Oil prices continue to rise on Opec news

MARKETS REPORT

By Robert Corzine and Gillian O'Connor

Oil prices continued to firm yesterday amid further signs that main oil exporters are preparing to implement the latest global production cut on April 1.

The price of the bellwether Brent Blend futures contract for May delivery was up 25 cents to $13.52 a barrel in late trading on London's International Petroleum Exchange. At one point, May Brent was trading at about a five-month high of $13.97 but was unable to maintain the gains as it approached technical resistance points.

The markets were supported by reports that several leading members of the Organisation of Petroleum Exporting Countries, including Saudi Arabia and Kuwait, are informing customers of cuts to April liftings. Venezuela yesterday confirmed it would cut output by 125,000 b/d.

Aluminium and lead both ended higher on the London Metal Exchange, although other base metals drifted lower. But although analysts reckon aluminium could continue to rally in the short term – three-month metal was up $31 yesterday at $1,226 – most remain bearish about longer-term prospects.

Macquarie Equities sees four reasons to be cautious. Physical demand may have picked up, but much of it seems to be purchases postponed from January; consumers who were holding back in the hope of still lower prices have started buying; a large "position holder" has 30-40 per cent of LME stocks, so available supplies are lower than total LME figures suggest; and stocks have stopped rising, prompting concerns that the surplus is less than originally estimated.

TVX seeks Greek partner

By Kerin Hope in Athens

TVX Hellas, the Greek subsidiary of Canada's TVX Gold, is seeking a strategic partner to invest in a $600m gold extraction project in northern Greece after receiving long-awaited site approvals from the government.

A plan for a $300m plant to extract gold from refractory ore mined at Olympiada on the Halkidiki peninsula was put on hold three years ago because of protests by local residents concerned about the environmental impact.

The Greek antiquities service also raised concerns about unexcavated archaeological remains in the area. Olympiada is close to the birthplace of the ancient philosopher Aristotle.

However, the development ministry has approved TVX Hellas's proposal to build the gold extraction plant next to a lead and zinc ore milling facility. A pipeline would carry waste 3km to a new tailings pond. The plant would produce up to 210,000 oz of gold a year, at a cost of about $200 an ounce.

John Drapaniotis, TVX Hellas chief executive, said the central archaeological council, an independent organisation that advises the government, had approved both sites. The environment ministry was expected to give its approval soon.

TVX Hellas plans to invest a further $240m in developing open-pit and underground mining of copper and gold at Skouries, another site on the concession. Because of its remote location, local residents have not raised objections. About 350,000 oz of gold a year could be produced there.

Mr Drapaniotis said up to 50 per cent of the company would be offered to a strategic investor prepared to invest in both the Olympiada and Skouries projects.

About 40 per cent of the cost would be financed through equity and 25 per cent through bank loans. The rest would be covered by grants under Greece's investment incentive programme. NM Rothschild, the UK investment bank, is advising TVX Hellas.

S Africa maize crop to be less than expected

South Africa's 1999 maize harvest is now expected to be 1m tonnes less than the country's official crop estimate, according to a poll of agricultural industry analysts, Reuters reports from Johannesburg.

A spell of severely hot and dry weather has withered the country's biggest crop and, although the damage is uneven, will cut projected production to just 6.2m tonnes, according to forecasts polled from 13 analysts.

This compares with the National Crop Estimates Committee's estimate of 7.267m tonnes made on February 22 – its first for the maize crop to be harvested from May this year. The body releases its second monthly estimate for maize output today.

"There is good maize and there is bad maize due to the weather. It is very difficult to estimate as in one field there is damage and in the next to it there is not," said John Gordon, managing director of trading firm Andre Genfood.

South African maize prices have shot to record season highs of more than R1,000 (160) a tonne for white grain due to temperatures of more than 35 degrees Celsius coupled with no rain.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1206-07	1225-26
Previous	1170-1	1193-4
High/low		1227/1193
AM Official	1197-98	1216.5-17
Kerb close		1225-26
Open int.	281,763	
Total daily turnover	159,596	

ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1082-87	1101-02
Previous	1058-63	1082-4
High/low		1101/1084
AM Official	1075-77	1091-92
Kerb close		1096-98
Open int.	8,536	
Total daily turnover	5,298	

LEAD ($ per tonne)

	Cash	3 mths
Close	499.5-500.5	501-2
Previous	492-3	495-6
High/low		507/496
AM Official	499.5-500	502-3
Kerb close		500-1
Open int.	36,017	
Total daily turnover	11,717	

NICKEL ($ per tonne)

	Cash	3 mths
Close	5140-50	5210-20
Previous	5180-90	5255-60
High/low		5250/5160
AM Official	5145-55	5210-15
Kerb close		5185-90
Open int.	74,018	
Total daily turnover	16,684	

TIN ($ per tonne)

	Cash	3 mths
Close	5330-40	5250-55
Previous	5320-30	5260-70
High/low		5280/5240
AM Official	5320-30	5250-55
Kerb close		5250-55
Open int.	19,218	
Total daily turnover	8,823	

ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1018-19	1031-32
Previous	1020-21	1034-5
High/low		1036/1015
AM Official	1018-19	1031-32
Kerb close		1029-30
Open int.	94,590	
Total daily turnover	18,189	

COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1369-70	1396-96.5
Previous	1371-2	1399-400
High/low		1405/1387
AM Official	1370-71	1400-01
Kerb close		1391-92
Open int.	167,827	
Total daily turnover	66,112	

LME AM Official £/$ rate: 1.6287
LME Closing £/$ rate: 1.6354

Spot: 1.6296 3 mths: 1.6283 6 mths: 1.6284 9 mths: 1.6290

HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	60.95	-0.75	62.70	60.90	719	871
Apr	61.15	-0.75	62.55	61.15	512	4,014
May	61.65	-0.65	63.10	61.60	8,245	39,399
Jun	62.10	-0.60	63.35	62.10	67	1,942
Jul	62.50	-0.60	63.85	62.50	247	9,806
Aug	62.85	-0.60	64.10	62.80	8	1,518
Total					10,601	75,702

PRECIOUS METALS

LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	283.00-283.50		
Opening	283.90-284.30		
Morning fix	284.30	174.66	258.15
Afternoon fix	283.70	174.14	257.72
Day's High	284.40-284.80		
Day's Low	282.80-283.20		
Previous close	284.00-284.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.28	6 months	4.07
2 months	4.23	12 months	3.73
3 months	4.19		

Silver Fix	p/troy oz.	US cts equiv
Spot	308.58	504.00

Silver Leading Rates

1 month	1.00	6 months	0.50
2 months	1.00	12 months	0.25
3 months	1.00		

Gold Coins	$ price	£ equiv.
Krugerrand	285-289	175-177
New Sovereign	66-70	40-43

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	283.0	-0.5	291.5	291.5	6	-
Apr	283.5	-0.6	284.9	282.1	33,453	54,734
Jun	285.5	-0.6	286.8	284.2	10,825	38,656
Aug	287.6	-0.5	288.3	287.0	830	8,998
Oct	289.6	-0.4	-	-	1	2,934
Dec	291.6	-0.3	292.7	290.2	284	13,437
Total					45,963	158,397

PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	369.4	+0.6	371.0	367.0	813	11,179
Jul	370.0	+0.7	371.0	367.5	118	3,641
Oct	370.6	+0.8	-	-	1	1,132
Total					932	15,957

PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	352.00	+2.25	-	-	13	46
Jun	350.00	+2.25	350.00	347.00	91	2,294
Sep	344.00	+2.25	-	-	50	207
Total					81	2,888

SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	502.0	-3.2	505.0	500.0	171	854
May	501.5	-2.5	506.5	498.0	11,763	40,955
Jul	503.9	-2.5	507.0	501.5	1,084	16,096
Sep	505.6	-2.6	-	-	367	4,026
Dec	508.6	-2.7	510.5	505.5	75	8,755
Jan	508.1	-2.7	-	-	3	14
Total					13,544	77,716

ENERGY

CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	15.18	+0.13	15.55	15.04	58,430	59,480
May	15.28	+0.13	15.62	15.14	80,279	144.4k
Jun	15.24	+0.20	15.51	15.06	25,258	83,145
Jul	15.16	+0.21	15.43	15.01	8,974	38,487
Aug	15.07	+0.18	15.30	14.95	4,377	23,685
Sep	15.00	+0.16	15.20	14.90	5,731	19,933
Total					204,475	604,580

CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
May	13.52	+0.25	13.97	13.40	33,765	91,169
Jun	13.47	+0.22	13.88	13.39	17,619	52,440
Jul	13.42	+0.20	13.73	13.37	5,152	19,765
Aug	13.56	+0.35	13.69	13.51	2,494	8,990
Sep	13.39	+0.18	13.80	13.35	2,235	13,195
Oct	13.59	+0.36	13.66	13.53	1,117	6,442
Total					n/a	n/a

HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	40.10	+0.42	41.00	39.65	21,029	32,198
May	39.95	+0.32	40.75	39.60	12,548	29,305
Jun	40.10	+0.32	40.75	39.85	8,069	20,997
Jul	40.45	+0.27	41.35	40.25	1,917	15,860
Aug	41.00	+0.27	41.50	40.80	1,073	13,469
Sep	41.80	+0.37	42.20	41.50	447	7,429
Total					52,283	169,765

GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	118.75	+1.50	122.25	118.50	9,185	32,858
May	119.00	+2.00	122.00	118.25	6,753	27,354
Jun	119.00	+1.50	122.00	119.25	5,009	17,850
Jul	120.25	+1.75	123.50	120.00	2,067	8,355
Aug	121.75	+1.25	125.00	122.00	716	6,450
Sep	123.25	+0.75	125.50	123.75	323	6,253
Total					25,079	143,872

NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	9.380	+0.080	9.380	9.350	100	3,835
May	9.280	+0.050	-	-	-	2,255
Total					250	n/a

NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	1.690	-0.058	1.770	1.680	22,573	47,332
May	1.735	-0.046	1.805	1.720	9,470	29,191
Jun	1.765	-0.049	1.840	1.750	2,399	20,537
Jul	1.795	-0.049	1.865	1.785	1,533	17,262
Aug	1.835	-0.036	1.895	1.820	1,213	14,630
Sep	1.865	-0.036	1.915	1.855	963	15,228
Total					44,334	286,715

UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	47.20	-	48.15	46.70	21,837	32,903
May	47.85	+0.04	48.80	47.45	14,978	27,338
Jun	48.15	+0.01	48.95	47.80	6,196	18,621
Jul	48.20	+0.06	48.95	48.00	2,397	18,801
Aug	47.85	+0.06	48.50	47.70	1,698	4,274
Sep	47.25	-0.01	48.10	47.65	1,239	3,669
Total					50,885	114,084

GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	73.00	-0.50	73.00	73.00	2	27
May	74.75	-0.60	75.10	74.75	171	3,137
Jul	76.60	-0.60	77.00	76.60	138	1,807
Sep	75.45	-0.05	75.45	75.45	10	164
Nov	77.00	-0.50	77.25	77.00	93	3,001
Jan	79.00	-0.50	79.00	79.00	6	532
Total					429	8,735

WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	266.50	-5.00	269.00	266.00	138	203
May	273.75	-4.00	278.50	272.00	9,786	42,973
Jul	283.75	-4.25	288.50	282.00	13,339	53,137
Sep	294.00	-3.50	298.25	292.50	685	5,620
Dec	308.00	-4.00	311.00	306.00	1,181	8,826
Mar	316.50	-3.50	-	-	147	2,609
Total					25,127	113,458

MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	217.75	-2.25	220.75	217.50	1,842	2,613
May	224.25	-1.50	228.00	224.00	53,822	128,331
Jul	230.25	-0.75	233.50	230.00	10,921	104,669
Sep	236.75	-1.00	239.25	236.50	1,650	24,381
Dec	245.00	-1.00	247.75	244.25	11,934	71,749
Mar	252.25	-1.00	254.75	251.75	999	10,211
Total					81,571	347,340

BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	74.00	+1.00	72.50	72.50	7	13
May	74.50	+0.50	-	-	-	163
Sep	74.00	-0.25	-	-	-	35
Nov	76.25	-0.25	76.25	76.25	10	345
Jan	78.25	-0.25	-	-	-	20
Total					17	576

SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	475.75	-0.50	478.50	474.00	1,150	875
May	482.00	+0.75	487.00	479.50	51,778	65,129
Jul	489.50	+1.00	494.00	487.50	11,596	46,069
Aug	492.25	+1.25	496.50	490.50	891	15,572
Sep	495.25	+3.75	498.50	492.50	1,366	6,213
Nov	503.75	+3.00	507.50	500.00	9,865	30,607
Total					77,128	167,798

SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	18.70	-0.20	19.00	18.65	650	661
May	18.89	-0.18	19.29	18.85	20,676	47,053
Jul	19.13	-0.22	19.55	19.11	7,963	32,337
Aug	19.27	-0.23	19.68	19.27	791	8,831
Sep	19.42	-0.23	19.85	19.42	851	8,000
Oct	19.56	-0.24	20.02	19.55	492	4,981
Total					34,516	135,782

SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	130.5	+0.8	130.5	128.6	894	1,634
May	132.2	+0.8	132.3	130.3	14,772	43,627
Jul	134.2	+1.1	134.3	132.1	6,785	35,964
Aug	135.3	+1.0	135.9	133.7	808	11,985
Sep	136.7	+0.9	137.4	135.2	741	9,382
Oct	138.1	+1.1	138.5	136.7	67	4,781
Total					25,964	122,421

POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	301.0	-4.0	301.0	296.0	206	1,560
May	331.0	-4.0	-	-	-	61
Jun	341.0	-4.0	-	-	-	-
Nov	85.0	-	-	-	-	3
Mar	125.0	-	-	-	-	-
Total					206	1,785

FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	975	-5	975	970	22	206
Apr	1005	+5	1005	990	34	899
May	980	-	980	980	8	94
Jul	870	-25	-	-	-	577
Oct	1000	-	-	-	-	442
Total					64	2,285

	Close	Prev
BFI	987	985

PULP AND PAPER

PULPEX OMLX (US$: 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	447.25	-3.75	455.00	447.25	70	503
Sep	466.25	+0.25	466.25	466.25	10	68
Total					80	573

FUTURES DATA
All futures data supplied by CMS.

Wool from Mallett & Co
Fine merino was still in demand this week but offerings were limited and rises in the sector were sufficient only to balance steady or fractionally softer pricers in broader categories. New Zealand wool, mostly second shear, sold at unchanged prices. Clearances everywhere were not as good as last week and price-cutting throughout the industry, coupled with the effects on some countries of currency volatility, make it difficult to build up optimism on prices. The Australian eastern market indicator closed 2 cents higher at 530 cents a kg, while the New Zealand indicator was 1 cent lower at 393 cents a kg.

SOFTS

COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	836	-2	840	836	127	1,151
May	838	-5	845	834	1,439	49,654
Jul	854	-5	860	850	491	15,573
Sep	870	-5	874	866	608	27,989
Dec	892	-6	900	889	544	27,208
Mar	915	-6	-	-	250	18,783
Total					3,524	185,098

COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1223	-3	1236	1213	4,308	29,649
Jul	1244	-5	1254	1234	1,292	13,906
Sep	1267	-4	1270	1260	117	8,376
Dec	1302	-4	1304	1301	16	6,037
Mar	1337	-4	1339	1339	70	6,300
Total					6,763	68,758

COCOA (ICCO) (SDR's/tonne)

Mar 17	Price	Prev. day
Daily	968.56	956.67

COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1765	-	1810	1758	253	4,620
May	1560	-5	1591	1539	7,023	29,951
Jul	1552	-1	1589	1540	2,127	10,659
Sep	1557	-3	1595	1550	352	5,258
Nov	1557	-2	1585	1573	87	1,648
Jan	1556	-	1570	1570	20	450
Total					9,862	52,700

COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	102.55	-4.35	105.00	102.75	36	189
May	102.65	-4.55	107.25	102.50	5,616	23,419
Jul	104.20	-4.05	108.25	104.10	1,042	8,355
Sep	105.80	-3.85	109.65	105.70	280	5,435
Dec	107.25	-3.80	111.25	107.00	40	2,378
Mar	108.65	-3.80	112.50	109.00	2	734
Total					7,016	40,627

COFFEE (ICO) (US cents/pound)

Mar 17	Price	Prev. day
Comp. daily	90.41	89.66
15 day average	89.91	90.06

WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	201.7	-5.3	203.0	200.6	2,008	23,411
Aug	194.8	-5.9	197.0	194.0	1,753	14,153
Oct	192.3	-3.5	193.0	191.6	836	10,999
Dec	195.3	-1.1	194.5	194.5	2	4,098
Mar	200.8	-0.6	200.0	199.0	8	2,988
May	202.2	-0.4	201.0	201.0	5	1,369
Total					4,617	57,113

SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	5.72	-0.07	5.77	5.68	11,488	69,254
Jul	5.53	-0.06	5.57	5.50	4,111	45,228
Oct	5.93	-0.03	5.97	5.88	1,317	27,413
Mar	6.48	-0.07	6.54	6.48	1,036	18,616
May	6.54	-0.07	6.59	6.59	15	3,129
Jul	6.59	-0.07	6.66	6.64	11	2,068
Total					18,038	187,241

COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	61.16	-0.26	61.40	60.85	2,527	23,186
Jul	61.00	-0.07	61.10	60.65	1,155	14,421
Oct	60.30	+0.05	60.30	59.95	11	1,798
Dec	59.98	+0.10	60.00	59.55	855	16,364
Mar	60.90	+0.10	60.80	60.50	68	2,246
May	61.45	+0.10	-	60.90	76	1,116
Total					4,692	59,568

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	83.15	+1.20	84.50	82.40	615	17,304
Jul	83.60	+1.15	85.00	82.80	263	5,295
Sep	84.30	+1.00	85.10	84.60	148	2,530
Nov	84.90	+1.00	85.50	85.50	156	2,148
Jan	86.40	+1.05	-	-	3	1,179
Mar	88.15	+1.00	-	-	5	312
Total					1,187	28,909

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

Reuters (Base: 18/9/31 = 100)

Mar 18	Mar 17	month ago	year ago
1390.5	1389.7	1426.0	1681.7

CRB Futures (Base: 1967 = 100)

Mar 17	Mar 16	month ago	year ago
188.43	186.84	-	-

GSCI Spot (Base: 1970 = 100)

Mar 17	Mar 16	month ago	year ago
145.57	142.42	130.29	158.50

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+1,450	to	815,825
Aluminium alloy	-1,720	to	79,060
Copper	-325	to	698,600
Lead	-175	to	104,850
Nickel	-486	to	57,578
Zinc	-250	to	305,850
Tin	+180	to	9,300

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	67.150	+0.275	67.375	66.750	6,107	43,447
Jun	64.325	+0.025	64.675	64.050	3,386	40,050
Aug	62.800	+0.225	62.950	62.550	1,129	16,550
Oct	64.500	+0.150	64.650	64.300	438	10,141
Dec	66.375	+0.100	66.550	66.300	147	4,327
Feb	67.750	+0.125	67.900	67.700	35	1,361
Total					11,268	116,204

LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	42.275	+1.300	42.400	40.975	3,396	11,747
Jun	54.475	+1.450	54.650	52.850	3,058	14,479
Jul	55.550	+1.000	55.600	54.500	671	4,898
Aug	55.700	+0.650	56.100	54.900	528	4,513
Oct	53.775	+0.425	53.925	53.150	464	5,276
Dec	54.650	+0.425	54.650	54.050	49	2,890
Total					8,213	44,421

PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Mar	50.300	+0.825	51.100	49.400	30	88
May	50.900	+0.425	51.650	49.950	1,160	2,815
Jul	51.850	+0.500	52.700	50.900	189	1,211
Aug	51.025	+0.725	52.200	50.900	5	376
Total					1,384	4,490

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
ALUMINIUM (99.7%) LME	May	Aug	May	Aug
1150	75	103	9	19
1200	41	71	25	35
1250	19	46	52	58
COPPER (Grade A) LME	May	Aug	May	Aug
1350	58	98	29	48
1400	33	72	54	71
1450	17	52	88	99
COFFEE LIFFE	May	Jul	May	Jul
1550	192	46	1	46
1600	142	26	1	76
1650	92	15	1	115
COCOA LIFFE	May	Jul	May	Jul
800	47	74	9	20
825	19	44	31	40
850	11	33	48	54
BRENT CRUDE IPE	May	Jun	May	Jun
1300	-	121	29	-
1350	-	-	53	-
1400	56	74	-	-

LONDON SPOT MARKETS

CRUDE OIL FOB (per barrel)

		+or-
Dubai	$13.24-3.35	+0.28
Brent Blend (dated)	$13.33-3.43	+0.39
Brent Blend (May)	$13.51-3.61	+0.27
W.T.I.	$15.32-5.34x	+0.22

OIL PRODUCTS NWE prompt delivery CIF (tonne)

Unleaded Gasoline ‡	$140-143	+7
Gas Oil	$123-124	+1
Heavy Fuel Oil	$57-58	
Naphtha	$123-125	+8
Jet fuel	$132-133	+2
Diesel	$128-129	+4.5

NATURAL GAS (Pence/therm)

Bacton (Apr)	9.33-9.40

Petroleum Argus. Tel: London (0171) 359 8792

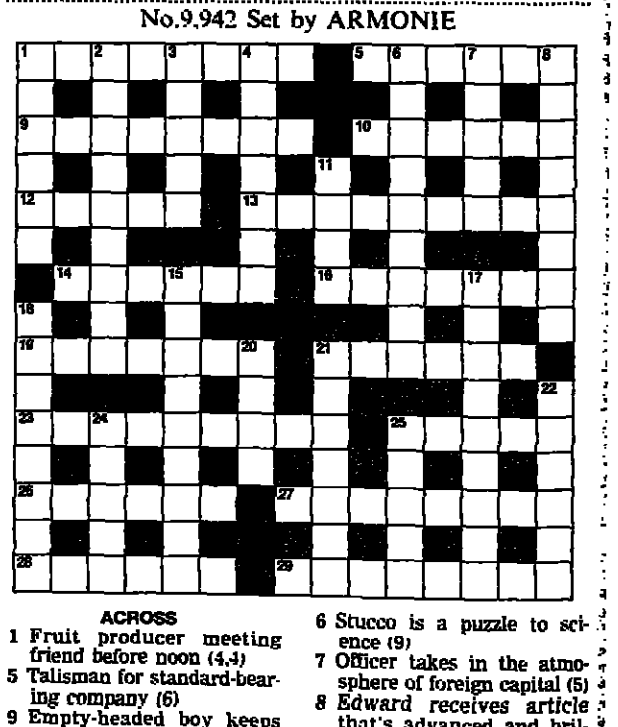
OTHER

Gold (per troy oz)♣	$283.25	-1.00
Silver (per troy oz)♣	504.00c	-0.25
Platinum (per troy oz.)	$367.50	-0.25
Palladium (per troy oz.)	$349.00	+1.00
Copper	67.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.65r	
Tin (New York)	253.5	
Cattle (live weight)	92.20p	+1.46*
Sheep (live weight)	92.26p	+0.13*
Pigs (live weight)†	58.28p	-5.56*
Lon. day sugar (raw)	$151.50	-1.80
Lon. day sugar (wte)	$213.60	-4.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Apr)♥	42.75p	-0.25
Rubber (May)♥	43.25p	
Rubber (KL RSS No1)	236.00m	-2.50
Coconut Oil (Phil)§	700.0	-10.0
Palm Oil (Malay.)§	452.5y	-5.0
Copra (Phil)§	460.0z	
Soyabeans (US)	147.0y	-3.0
Cotton Outlook A index	56.45	
Wooltops (64s Super)	392p	

JOTTER PAD

CROSSWORD

No.9,942 Set by ARMONIE



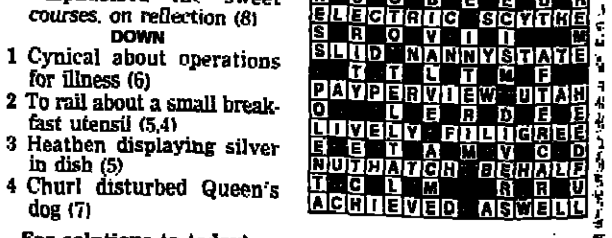
ACROSS

1 Fruit producer meeting friend before noon (4,4)
5 Talisman for standard-bearing company (6)
9 Empty-headed boy keeps Rover in the greenhouse (8)
10 Happy little woman's medicine bottle (6)
12 Cloth found in shop is a tiny bit dear (5)
13 Passes on with ease (5,4)
14 Artist gets support from weapon (6)
16 In song, tease a champion of popular rights (7)
19 Crumpet found in a fish bar (7)
21 Sean's confused by the battle (6)
23 A Queen, for example, is to woo a senior cleric, briefly (5,4)
25 Start to consider examination of lobster roe (5)
26 An ecclesiastic from Peru, perhaps (6)
27 Look for the men of Smithfield (8)
28 The French rejected uniform for the soccer team (6)
29 Emphasised the sweet courses, on reflection (8)

DOWN

1 Cynical about operations for illness (6)
2 To rail about a small breakfast utensil (5,4)
3 Heathen displaying silver in dish (5)
4 Churl disturbed Queen's dog (7)
6 Stucco is a puzzle to science (9)
7 Officer takes in the atmosphere of foreign capital (5)
8 Edward receives article that's advanced and brilliant (8)
11 The speed of a bird (4)
15 Being nervous I mock everyone standing up within (3,2,4)
17 Relieves the badly sunburned (9)
18 Ultramodern wise man accepts progress (5-3)
20 Redhead wears beret in vehicle (4)
21 "It's likely", the Baron interrupts, "a bow is unacceptable" (2,5)
22 Finished near opening of drain (6)
24 It's not necessary or acceptable having nude dancing (5)
25 It's a hiding-place for money, they say (5)

Solution 9,941



For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

MFS Meridian Funds - Contd.

Marshall Wace Asset Management Limited

Masters International Advisors

Montgomery Emerging Markets Fund Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

ABN AMRO Global Liquidity Funds Plc (a)

Aberdeen Prolific Intl Fund Plc

Bank of Cyprus Group

1 Harbourmaster Place, IFSC Dublin 1 353 16700300

BOC International Fund Management Ltd

GT Global - Contd.

Global Asset Management (GAM)

For Guernsey Right see Investor Guernsey Pages

The Hslai Mutual Investment Company Plc

19 South Frederick Street, Dublin 2

Baring Intl Fd Mngrs (Ireland) Ltd

IFSC Hse, Custom Hse Docks Dublin 0171-628 6000

Henderson Crosthwaite Investment Co

2 Gresham Street, London EC2V 7QH 0171 5971253

Herald Investment Fund Plc

12 Charterhouse Sq, London EC1M 6AX 44171 5536300

AIG Asset Management Ltd

AIM Capital Funds Plc (a)

General & Cologne Re Fd Mgrs (Ireland) Ltd

Global Euro-Asia Investment

Global Resources Stock Fund

The Golden Gate Fund Plc

Goldman Sachs

Premier Protected Assets Fund Plc

Prudential Securities Futures Mgmt Inc

Putnam World Trust

RMB Global Fund

Rothschild Asset Management (Ireland) Ltd

J. Rothschild International Assce plc

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

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Barclays International Funds

Murray Johnstone (Jersey) Limited

Fidelity Funds - Contd.

Lombard Odier Invest (z)

Schroder International Selection Fd - Contd.

Banque Internationale A Luxembourg

International Bond Trust

Scudder Global Opportunities Funds - Contd.

LUXEMBOURG (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†¥	467xd	-1	646	385	4,969	8.6	12.2
Bulmer (HP)		320	+2	399	279½	-	5.8	14.3
Burn Stewart		11½		30½	7	22	-	-
Diageo		673½	-34½	795	476	7,865	2.8	16.6
Glenmorangie A	†	886	—	900	600	-	3.0	16.4
B	†	672½	—	980	672½	-	1.3	38.5
Highland		236	-9½	325	225	71	5.0	10.8
5¾pc Cv Sb Bd		97½	-	108½	90½	-	5.9	-
Kirin Y		724½xd	-34¼	814¼	457¾	-	0.9	58.4
Merrydown		23½	-	54½	19½	26	-	Φ
Seagram C$		£29⅞	-⅞	£38⅞	£14⅞	-	0.9	-
South African Brews		661	+9¼	588	433	3,559	-	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the Official List.

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pre -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ♦ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress.
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
f Dividend/yield adjusted for complex issue
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Dividend/yield includes amount payable after 6/4/99
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1999.
K Yield based on prospectus or other official estimates for 2000
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
P Dividend/yield adjusted for consolidation or share split
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xR ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion

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LONDON STOCK EXCHANGE

Fifth day of falls drags Footsie closer to 6,000

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

There was marginal respite yesterday for an increasingly weary-looking UK equity market as the leading stocks rallied from their worst levels but still finished on the downside.

Initially burdened by another poor showing by Wall Street overnight, where the Dow Jones Industrial Average looked increasingly reluctant to have another tilt at the 10,000 mark, at least in the short term, the FTSE 100 fell away for the fifth straight session.

And hefty losses in Tokyo and Hong Kong, down 3.4 per cent and 2.6 per cent respectively, did nothing to bolster London's flagging confidence.

The slide in the FTSE 100 would have been more severe had it not been for a powerful performance from the oil majors, which account for more than 11 per cent of the index, in the wake of the latest rise in the crude oil price. It moved above the $13-a-barrel mark for the first time since October on expectations that the Opec meeting on March 23 would ratify significant production cuts.

At the finish of a trading session that saw turnover pick up during the afternoon, the FTSE 100 settled 36.3 off at 6,114.3, taking the loss over the past five days to 201.4 or 3.5 per cent.

A "take profits" recommendation in the banks issued by Lehman Brothers, one of the influential US brokers, was one of the big factors driving the FTSE 100 sharply lower in the morning. Barclays, Lloyds TSB and Abbey National were among those most affected.

At its worst, Footsie was down 65.7 at 6,074.9, and there were plenty of observers worrying that the index could drop below 6,000.

Similarly, the second and third-rank stocks continued to lose ground and, unlike the FTSE 100, the FTSE 250 and FTSE SmallCap indices closed not too far from their session lows.

The FTSE 250 settled 22.0 down at 5,463.3 after hitting a day's low of 5,460.0, while the FTSE SmallCap ended 1.1 off at 2,373.8 after a session low of 2,372.9.

A painstaking and gradual return of confidence on Wall Street, where the Dow picked up to post a gain of nearly 40 shortly after London closed, was behind the market rally here.

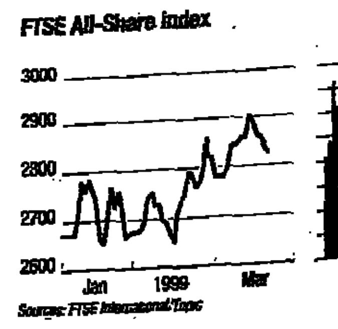
But dealers were becoming increasingly nervous about Wall Street's ability to stage another attack on 10,000 and the FTSE 100's apparent unhappiness much above the 6,000 mark.

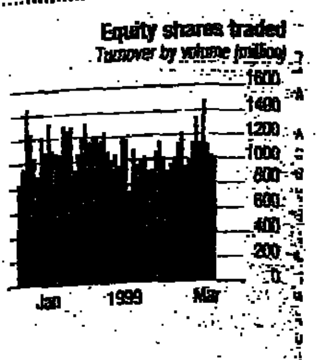
"There has been some strategic manoeuvring in the market in the run-up to this morning's big expiries in the March FTSE future and index options, and the market could well rally as we get those out of the way," said one marketmaker.

There was more takeover activity, with Goldsmiths, the jewellery retailer, attracting a management buy-out and BICC, the cables group, rejecting a 90p-a-share bid from conglomerate Wassall.

On the other hand, profit warnings continued to cause dismay and hefty share price declines – Norbain, the electronics group, and Mansfield Brewery were the latest casualties.

Turnover at 6pm was 1.17bn shares, split almost equally between Footsie and non-Footsie stocks.





Indices and ratios

FTSE 100	6114.3	-36.3
FTSE 250	5463.3	-22.0
FTSE 350	2917.5	-12.4
FTSE All-Share	2825.40	-11.50
FTSE All-Share yield	2.89	2.88
FT 30	3716.4	-8.1
FTSE Non-Fins p/e	24.38	24.42
FTSE 100 Fut Mar	6137.0	+4.9
10 yr Gilt yield	4.6	4.61
Long gilt/equity yld ratio	1.72	1.74

Best performing sectors

1 Oil Exploration & Prod +3.6
2 Oil Integrated +3.0
3 Resources +2.6
4 Electricity +2.5
5 Tobacco +2.1

Worst performing sectors

1 Alcoholic Beverages -4.[illegible]
2 Electronic & Elect Equip -2.[illegible]
3 Household Goods & Texts -2.[illegible]
4 Retailers: General -1.[illegible]
5 Telecommunications -1.[illegible]

Banks join Irish festivities

COMPANIES REPORT

By Peter John, Martin Brice and Simon Bernholt

There was no St Patrick's Day hangover for the Irish banks yesterday as a couple of brokers highlighted their relative merits.

In a review of the Irish bank sector, Morgan Stanley Dean Witter repeated an "outperform" rating on Allied Irish Banks and raised its rating on Bank of Ireland to "strong buy" from "outperform", setting a price target of £18.60 on the stock.

In addition, WestLB Panmure issued a positive note on the banks, saying the economy was growing faster than in the UK. Bank of Ireland rose 37½ to £12.21½ and Allied 20 to £10.10½.

Meanwhile, the UK banks came under pressure with Lehman Brothers saying they are overvalued and advising profit-taking. Also, Panmure stressed its dislike of the mortgage lenders.

Barclays fell 40 to £17.83. Abbey National 18 to £12.92. Woolwich 4 to 371½p and HSBC 5 to £19.23 after big falls on the Hang Seng.

British American Tobacco moved forward 15½ to 534p on a "buy" recommendation from HSBC Securities. The broker believes the merger with Rothmans, cleared by the European Union on Wednesday, will be complete by June and will outweigh litigation concerns.

In addition, dealers said Kenneth Clarke, the former UK chancellor, and a director of BAT, had bought 1,899 shares at 526½p each.

Life assurer St James's Place Capital improved 2½ to 284½p after announcing a 67 per cent profit rise and saying it faced less margin pressure than its rivals.

The long-expected approach by Wassall to BICC came at last but, unsurprisingly, was rejected.

The announcement came after the market closed, but before dealings ceased BICC was off 1¼ at 82p while Wassall, which has a 9.3 per cent stake in its target, gained 2½ to 208½p.

Diageo was the worst performer in the Footsie as investors took fright at the prospect of a line of stock overhanging the market. The latest worry came from Bernard Arnault, chairman of LVMH, saying his company would not own its 11 per cent stake in three years' time.

The stock fell almost 5 per cent or 34½ to 673½p as the remarks at LVMH's annual results presentation took their toll. The prospects of a sale of the stake, which LVMH has said is not a core strategic holding, has unsettled the stock before.

Hopes that shipping and transport group P&O would announce an increase in the dividend for the first time since 1990 prompted buying pressure in the stock, which rose 40 to 790p.

The bull story was supported by figures from P&O Nedlloyd, the joint venture between Royal Nedlloyd and P&O, particularly by news that trading in Asia was improving.

Results from P&O next week are expected to produce an underlying result ahead 10 per cent, while technical research by Teather & Greenwood highlights the prospect of further outperformance in the stock.

Oil stocks set the pace for the bulls as the price of dated Brent left $13 behind and headed for $14.

BP Amoco lifted 27 to £10.28 and Shell Transport 15 to 412p while the battered exploration and production stocks burst into life. Enterprise jumped 27½ to 340p and Lasmo 3¾ to 139¼p.

PowerGen received a boost of 18 to 692p from Goldman Sachs, the US broker, which upgraded its stance after an analysts' visit to the generator's East Midlands Electricity operation this week.

Goldman came away from the seminar "with the impression that management is making good progress with the integration of East Midlands".

It upgraded the stock to "market outperformer" saying the shares had been unfairly ignored and deserved to be bought up to 860p.

The broker also highlighted its preference for Scottish and Southern Energy as "the most compelling value play in the sector" with a target price of 700p. The shares gained 25 to 543p.

EMI meeting

Music company EMI jumped 20½ to 416½p following a weak spell and ahead of today's meeting with institutional investors.

Zeneca continued its strong run, gaining 79 to £25.99 as the index weighting pressure ahead of its merger with Astra of Sweden gathered pace.

Reckitt & Colman dipped 26½ to 691½p with pressure coming from Williams de Broe. The broker says this year is likely to be a transitional period.

It says earnings should recover next year but adds: "At the current share price, we would propose a switch into lower-rated Burmah Castrol, which is further advanced in both the Asian cycle and the marketing cycle." Burmah recovered from its lows to close 15 down at 887p.

Aerospace stocks were off as the bear story on the sector gained ground amid fears that the civil side of the aerospace industry was set to enter a downturn.

Smiths Industries suffered in the wake of results that showed much of its growth was coming from the aerospace side. It was off almost 4 per cent or 33½ at 919½p. On Monday it closed at £10.74. However, it remains well above its low of 824p, reached amid global market turmoil in October.

Other aerospace-related stocks also suffered, with Rolls-Royce off 11½ at 255p.

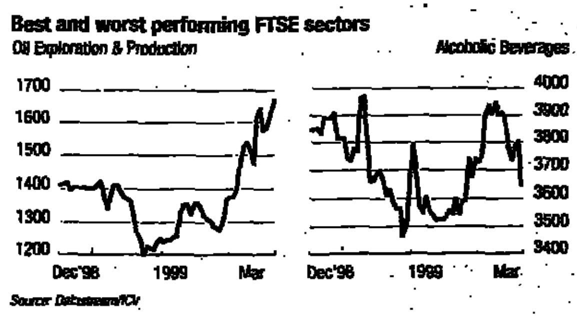
First Choice rose 17½ to 178½p after the company outlined to analysts the benefits of the proposed merger with Kuoni of Switzerland. Some specialists still believe there will be a counter bid, possibly from Airtours, down 6 to 480p.

Football shares regained some of yesterday's losses as fevered speculation continued over the contents of the Monopolies and Mergers Commission report on the proposed takeover of Manchester United, up 1 to 220p, by BSkyB, down 5 to 534½p.

Contradictory reports are emerging in the press. One analyst said: "Certain parties are obviously interested in forcing [UK trade secretary] Stephen Byers to come out with the report sooner rather than later".

However, few in the City believe the bid will be blocked. Aston Villa rose 15 to 555p.

There were further problems in the pottery sector as Churchill China, down 9½ to 86, issued a profits warning and said it would not be paying a final dividend.



FT 30 INDEX

	Mar 18	Mar 17	Mar 16	Mar 15	Mar 12	Yr ago	*High	*Low
FT 30	3716.4	3724.5	3778	3783.4	3832.8	3796.7	4004.9	2790.6
Ord. div. yield	2.79	2.77	2.73	2.73	2.70	2.9	4.22	2.72
P/E ratio net	22.76	22.85	23.21	23.21	23.49	24.48	25.41	15.80
P/E ratio nil	22.70	22.79	23.15	23.15	23.42	24.26	25.19	15.71

FT 30 since compilation: high 4004.9 7/15/98, low 49.4 26/6/40. Base Date 1/7/35

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3724.5	3717.9	3701.6	3696.9	3703.5	3705.6	3708.2	3702.5	3731.5	3689.9

STOCK MARKET TRADING DATA

	Mar 18	Mar 17	Mar 16	Mar 15	Mar 12	Yr ago
SEAQ bargains	85,162	96,559	96,777	92,595	93,301	72,633
Equity turnover (£m)†	-	na	na	n/a	5058.1	460.3
Equity bargains†	-	na	na	n/a	79,038	83,721
Shares traded (m)†	-	na	na	n/a	1053.4	941.4
Total market bargains‡	-	na	na	n/a	92,702	-
Total turnover (£m)‡	-	na	na	n/a	6337.6	-
Total shrs traded (m)‡	*1172.4	na	na	n/a	1309.6	-
Tradepoint turnover (£m)	27.1	30.9	29.4	25.7	43.8	28.7
Tradepoint shrs traded(m)	6.8	10.8	10.9	13.8	13.6	9.4

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	519	Total Highs	40	Total contracts	
Total Falls	958	Total Lows	39	Calls	
Same	1,375			Puts	

Mar 18 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6112.0	6110.0	-25.0	6142.0	6072.0	47492	57026
Jun	6160.0	6153.0	-23.0	6188.0	6112.0	38046	157707
Sep	-	6202.0	-23.0	-	-	0	3898

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	5446.0	-22.0	-	-	0	2117
Jun	-	5466.0	-22.0	-	-	0	7365

■ FTSE 100 INDEX OPTION (LIFFE) (6114) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

TRADING VOLUME

■ Major Stocks yesterday

[illegible]

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY MARCH 17 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY MARCH 16 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	213.82	-0.1	194.55	160.06	223.66	227.01	-0.3	3.32	213.99	195.31	159.44	225.89	227.79	219.96	163.86	218.02
Austria (21)	187.61	0.2	170.69	140.43	173.16	173.16	-0.7	1.94	187.25	170.90	139.51	174.41	174.41	253.73	165.27	211.09
Belgium (22)	382.82	0.6	348.31	286.56	345.95	345.95	-0.3	1.95	380.36	347.15	283.40	346.87	346.87	446.95	302.88	305.88
Brazil (29)	122.04	-0.9	111.04	91.35	127.66	420.64	-0.1	5.52	123.13	112.38	91.74	129.98	420.99	269.34	89.32	264.01
Canada (113)	205.90	-0.2	187.34	154.12	215.38	226.67	-0.7	1.75	206.20	188.19	153.63	217.66	228.25	248.78	159.94	240.95
Denmark (34)	419.28	2.9	381.49	313.85	438.58	384.95	2.0	1.90	407.33	371.78	303.49	429.98	377.50	537.33	406.62	489.62
Finland (29)	645.41	0.5	587.24	483.12	731.58	731.58	-0.4	1.59	642.20	586.12	478.48	734.59	734.59	661.25	338.49	378.27
France (74)	323.66	0.5	294.49	242.28	302.53	302.53	-0.4	1.94	322.08	293.95	239.97	303.80	303.80	354.45	253.86	283.78
Germany (55)	264.39	0.6	240.55	197.90	244.20	244.20	-0.3	1.61	262.68	239.74	195.71	244.84	244.84	325.61	226.35	265.44
Greece (36)	438.44	1.4	398.92	328.20	458.63	916.90	0.4	0.94	432.49	394.73	322.24	456.54	913.26	438.44	211.47	–
Hong Kong, China (66)	319.13	0.2	290.37	238.89	333.83	317.52	0.2	3.61	318.38	290.58	237.22	338.08	316.78	362.52	196.64	349.07
Indonesia (24)	44.07	-1.2	40.10	32.99	46.10	244.00	0.8	1.19	44.60	40.71	33.23	47.08	242.00	64.52	19.04	46.99
Ireland (14)	524.34	0.9	477.08	392.49	528.57	528.57	0.0	1.94	519.59	474.22	387.13	528.57	528.57	605.85	398.15	506.53
Italy (53)	173.00	0.5	157.40	129.50	227.25	227.25	-0.4	1.45	172.11	157.08	128.24	228.15	228.15	192.64	128.68	150.56
Japan (445)	111.46	1.1	101.42	83.44	116.60	83.44	1.6	0.89	110.26	100.64	82.15	116.39	82.15	111.46	75.83	102.28
Mexico (29)	1440.24	-1.2	1310.41	1078.08	1508.54	15266.51	-0.9	1.58	1457.92	1330.61	1086.25	1538.97	15406.16	1733.73	787.15	1573.71
Netherlands (26)	502.34	0.9	457.06	376.03	458.98	458.98	0.0	2.08	497.75	454.28	370.86	458.93	458.93	562.73	394.92	474.49
New Zealand (18)	63.38	-1.2	57.67	47.44	66.30	64.02	-0.7	4.44	64.14	58.54	47.79	67.70	64.48	77.84	45.68	77.84
Norway (37)	237.91	1.1	216.46	178.08	248.86	250.26	0.0	1.93	235.37	214.81	175.37	248.45	250.27	357.71	181.86	325.11
Philippines (22)	88.59	0.4	80.61	66.32	92.67	171.75	0.7	0.95	88.20	80.49	65.71	93.10	170.82	106.98	42.48	98.82
Portugal (18)	223.31	-1.6	203.18	167.16	278.36	278.36	-2.5	1.18	226.90	207.08	189.05	285.42	285.42	299.39	194.13	–
Singapore (40)	213.68	-1.6	194.42	159.95	223.52	169.77	-1.8	1.53	217.24	198.27	161.86	229.32	172.44	246.74	102.45	227.88
South Africa (34)	207.98	0.8	189.23	155.68	217.56	282.83	0.2	3.40	206.23	188.22	153.86	217.70	282.37	348.20	151.55	295.20
Spain (30)	387.09	-0.1	352.20	289.76	443.24	443.24	-1.0	1.57	387.42	353.59	288.88	447.87	447.87	435.19	290.81	355.18
Sweden (43)	512.72	0.2	466.50	383.79	536.32	619.26	-0.6	1.99	511.89	467.19	381.39	540.34	622.94	628.19	379.18	562.59
Switzerland (30)	399.85	1.1	363.80	299.30	418.25	359.79	0.1	1.19	395.29	360.77	294.52	417.26	359.31	441.65	307.73	390.89
Thailand (31)	23.98	0.2	21.82	17.95	25.08	34.73	0.6	2.59	23.92	21.83	17.82	25.25	34.53	33.66	8.15	33.31
United Kingdom (202)	390.79	-0.7	355.57	292.53	408.78	355.57	-1.0	2.68	393.48	359.12	293.17	415.36	369.12	401.84	307.96	380.89
USA (610)	535.31	-0.6	487.06	400.70	559.95	535.31	-0.6	1.24	538.45	491.43	401.18	568.38	538.45	539.14	390.12	441.38
Americas (781)	474.91	-0.6	432.10	355.49	496.77	403.23	-0.6	1.28	477.65	435.94	355.88	504.20	405.61	478.05	347.59	400.46
Europe (724)	357.09	0.2	324.90	267.30	373.53	337.71	-0.5	2.02	358.38	325.26	265.52	376.19	339.44	386.24	282.63	338.95
Eurobloc (342)	102.11	0.5	92.91	76.44	102.08	102.08	-0.4	1.75	101.56	92.69	75.67	102.46	102.46	113.92	81.53	–
Nordic (143)	496.87	0.7	452.08	371.93	519.74	517.31	-0.1	1.86	493.39	450.31	367.61	520.82	518.05	555.97	360.04	488.40
Pacific Basin (721)	118.51	0.8	107.83	88.71	123.96	91.66	1.2	1.35	117.51	107.25	87.56	124.04	90.58	118.51	82.88	112.85
Euro-Pacific (1445)	217.47	0.4	197.87	162.78	227.48	184.03	0.0	1.81	216.60	197.69	161.38	228.64	183.98	221.79	166.00	207.13
North America (723)	512.89	-0.6	466.66	383.92	536.50	513.96	-0.6	1.26	515.82	470.78	384.32	544.50	517.00	516.42	374.92	428.69
Europe Ex. UK (522)	328.81	0.7	299.17	246.13	343.95	318.95	-0.3	1.68	328.65	298.13	243.38	344.81	319.79	386.32	260.93	308.01
Europe Ex. Eurobloc (382)	98.64	-0.2	89.75	73.84	103.18	100.05	-0.7	2.29	98.79	90.16	73.60	104.28	100.71	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	96.66	1.1	87.95	72.35	101.11	96.56	0.1	1.43	95.66	87.30	71.27	100.98	96.47	109.21	75.16	–
Pacific Ex. Japan (276)	190.52	-0.1	173.35	142.61	199.29	195.92	-0.2	3.28	190.72	174.07	142.10	201.33	196.25	216.04	128.26	208.47
World Ex. Eurobloc (1918)	110.53	-0.3	100.57	82.74	115.62	109.75	-0.3	1.48	110.63	101.15	82.58	116.99	110.09	110.83	83.09	–
World Ex. US (1650)	216.66	0.4	197.31	162.33	226.84	189.23	0.0	1.84	216.07	197.20	160.99	228.08	189.26	221.91	165.95	211.00
World Ex. UK (2058)	312.61	-0.1	284.43	234.00	327.00	282.61	-0.2	1.39	312.88	285.56	233.12	330.27	283.30	312.88	236.11	276.15
World Ex. Japan (1815)	423.10	-0.3	384.96	316.71	442.58	417.57	-0.6	1.60	424.35	387.29	316.17	447.94	419.87	427.99	320.58	376.21
The World Index (2260)	319.37	-0.2	290.58	239.07	334.08	289.40	-0.3	1.52	319.84	291.91	238.31	337.62	290.33	319.84	242.36	285.01

 CONSTITUENT CHANGE 16/3/99: Deletion: Netscape Communications (USA). CONSTITUENT CHANGES WITH EFFECT 19/3/99: Deletions: Bangkok Metropolitan Bank (Thailand) and Christiani & Nielsen (Thailand). Both these stocks will be removed at 0.01 Baht. Market closed 18/3/99: Indonesia.

Emerging markets: IFC Investable indices

Dollar terms

Mar 17 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	797.63	+0.2	-0.0
Brazil	255.84	-1.0	-7.0
Chile	499.02	-0.1	+10.6
Colombia[1]	371.85	+1.0	-15.4
Mexico	601.03	-1.3	+24.8
Peru[2]	136.78	-0.7	+3.3
Venezuela[3]	357.05	-0.1	-21.2
East Asia			
China[4]	24.07	+1.9	-8.1
India[7]	77.09	-1.7	+20.1
Indonesia[8]	21.29	+0.2	-12.1
Korea[6]	54.38	+0.2	+2.6
Malaysia	78.30	-0.3	-11.5
Pakistan[9]	108.02	+1.0	+12.1
Philippines	121.77	+0.4	-1.1
Sri Lanka[10]	67.83	+2.4	-17.8
Taiwan, China[6]	123.86	+1.4	+7.0
Thailand	61.54	+0.1	-2.6
Europe			
Czech Rep	44.00	+2.2	-13.3
Greece	788.77	+1.9	+27.4
Hungary[11]	254.16	-1.0	-9.4
Poland[12]	489.33	-0.5	-6.8
Portugal	254.36	-1.5	-12.9
Russia	41.68	+5.0	+77.7
Slovakia	36.08	+2.3	-17.2
Turkey[13]	204.26	+4.5	+39.6
Mideast/Africa			
Egypt	71.50	-0.4	+10.9
Israel	119.16	+0.6	+16.6
Jordan	234.57	-0.1	+8.3
Morocco	159.70	+0.7	-4.7
S Africa[14]	145.70	+1.0	+16.4
Zimbabwe[15]	119.82	+1.3	+13.6
Regions			
Composite	202.24	+0.4	+8.3
Latin America	447.03	-0.7	+6.5
Asia	110.24	+0.5	+3.0
EMEA	130.13	+1.2	+13.9
Europe	169.05	+1.5	+13.5
Eastn Europe	62.16	+1.2	+6.9
ME & Africa	51.32	+0.8	+14.4
Comp + Malay	202.65	+0.3	+8.9
Asia + Malay	108.14	+0.4	+0.1

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993. Latest indices were unavailable for this edition.

EUROPE (EMU) Prices in € — AUSTRIA (Mar 18) 1 € = 13.7603 Sch; BELGIUM/LUX (Mar 18) 1 € = 40.3399 Frs; GERMANY (Mar 18) 1 € = 1.95583 Dm; FINLAND (Mar 18) 1 € = 5.94573 Mka; FRANCE (Mar 18) 1 € = 6.55957 Frs; IRELAND (Mar 18) 1 € = 0.78756 Punt; ITALY (Mar 18) 1 € = 1936.27 Lire; NETHERLANDS (Mar 18) 1 € = 2.20371 Fls; PORTUGAL (Mar 18) 1 € = 200.482 Esc; SPAIN (Mar 18) 1 € = 166.386 Pts.

EUROPE (NON-EMU) — CZECH REP (Mar 18 / Koruna); DENMARK (Mar 18 / Kr); GREECE (Mar 18 / Drachma); NORWAY (Mar 18 / Kroner); POLAND (Mar 18 / Zloty); SWEDEN (Mar 18 / Kronor); SWITZERLAND (Mar 18 / Frs.); TURKEY (Mar 18 / Tk Lira)

PACIFIC — JAPAN (Mar 18 / Yen); HONG KONG (Mar 18 / H.K.$); INDONESIA (Mar 17 / Rupiah); MALAYSIA (Mar 18 / MYR); NEW ZEALAND (Mar 18 / NZ $); SINGAPORE (Mar 18 / S$); AUSTRALIA (Mar 18 / Aus$); SOUTH KOREA (Mar 18 / Won); TAIWAN (Mar 18 / TW $); THAILAND (Mar 18 / Baht)

AMERICAS — CANADA: TORONTO (Mar 18 / Can $) 4 pm close; MONTREAL (Mar 18 / Can $) 4 pm close; MEXICO (Mar 18 / Peso) 12.30 pm

AFRICA — SOUTH AFRICA (Mar 18 / Rand)

[illegible]

NEW YORK STOCK EXCHANGE PRICES

4 pm close March 18

- X - Y - Z -

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng Prev. Close
63	33⅛	Xerox x	0.80	1.5	21	14888	54¼	52¾	53½	-1⅛
83⅞	58¼	XI Cap	1.76	3.0	9	1864	59½	58⅝	58¹⁵⁄₁₆	-⅛
66	37½	Xtra Corp			10	416	39¾	39	39¾	+⅛
31	22½	YankeeEgy x	1.38	5.8	21	69	23⅞	23¾	23¾	-⅛
52¾	27½	York Int	0.48	1.4	10	1511	35	34¼	35	
24	6⅛	Zapata			3	840	9	8	9¼	+⅛
50	31	Zeneca	0.80	1.9	33	8735	42	42⅛	42	+1½
30½	20	Zenith Nat	1.00	4.0	19	22	25	25	25	-⅛
8	5	Zeus Inc	0.67	11.2		143	6	6	6	-⅛
14	8¾	ZweigFd	1.08	10.3		738	10½	10⅛	10	
9	8	Zweig Tot x	0.84	10.2		600	8⅛	8¼	8¼	-⅛

Price data supplied by Financial Times Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 17	Mar 16	Mar 15	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9879.41	9930.47	9958.77	9958.77 (15/3/99)	7539.07 (31/8/98)	9958.77 (15/3/99)	41.22 (8/7/32)
Home Bonds	104.74	104.48	104.65	107.17 (9/12/98)	104.13 (25/2/99)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3336.79	3388.56	3404.65	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	302.41	301.54	301.96	320.51 (8/10/98)	262.88 (9/1/98)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 10024.54(10062.84) Low 9792.55 (9857.48) (Theoretical♣)
Day's high 9980.71 (10001.78) Low 9859.15 (9928.58) (Actual♣)

Standard and Poors	Mar 17	Mar 16	Mar 15	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1297.82	1306.36	1307.26	1307.26 (15/3/99)	927.69 (9/1/98)	1307.26 (15/3/99)	4.40 (1/6/32)
Industrials♥	1559.78	1567.89	1564.00	1567.85 (16/3/99)	1077.40 (9/1/98)	1567.85 (16/3/99)	3.52 (30/6/32)
Financial♥	141.19	143.15	145.47	147.69 (14/7/98)	95.80 (8/10/98)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	610.65	614.08	615.22	615.22 (15/3/99)	477.20 (8/10/98)	615.22 (15/3/99)	4.64 (25/4/42)
Amex Comp	715.83	716.31	720.91	753.87 (22/4/98)	563.75 (8/10/98)	753.87 (22/4/98)	524.20 (16/7/96)
NASDAQ Comp	2428.97	2439.27	2431.44	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (31/10/74)
Russell 2000	398.43	399.17	400.84	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Mar 12	Mar 5	Feb 26	Year ago
Dow Jones Ind. Div. Yield	1.60	1.59	1.67	1.63
	Mar 10	Mar 3	Feb 24	Year ago
S & P Ind. Div. yield	1.12	1.17	1.14	1.36
S & P Ind. P/E ratio	40.71	38.32	38.67	29.26

US DATA

MARKET ACTIVITY

● Volume (million)	Mar 17	Mar 16	Mar 15
NYSE	756.047	751.990	727.270
Amex	24.814	24.022	23.912
NASDAQ	859.481	983.827	854.843

NYSE	Mar 17	Mar 16	Mar 15
Issues Traded	3,547	3,556	3,555
Rises	1,364	1,305	1,529
Falls	1,604	1,672	1,443
Unchanged	579	579	583
New Highs	41	59	63
New Lows	84	82	76

NYSE TRADING ACTIVITY
Volume : 756,047,008

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
AmOnLine	23,014,700	108⅞	+3⅝
PhMorr	16,391,100	38½	
Compaq	15,224,500	33¼	+⅞
Frontr	12,151,600	50⅞	+6¼
AT&T	10,444,800	83⅞	+1¾
RiteAid	9,004,300	23½	−1
US Filter	5,736,200	28⅞	+4⅞
Citgrp	5,672,800	62⅛	−1⅞
Tycoln	5,034,800	73¼	−1⅛
LucentTch	4,738,800	103¼	−1¾

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Danind	14⅜	+2⅞	+23.3
US Filter	28⅞	+4⅞	+19.8
Winnebago	15⅛	+2⅛	+14.9
Frontr	50⅞	+6¼	+14.5
Downs			
WmsSonoma	29	−7	−19.4
NEngBus	28⅛	−4⅛	−13.4
Safeg'd Sc	54⅜	−4⅞	−7.9
BuckeyeTch	13⅞	−1⅛	−7.9

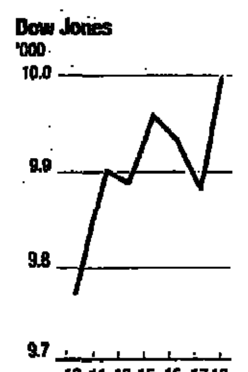
NASDAQ TRADING ACTIVITY
Volume 859,481,000

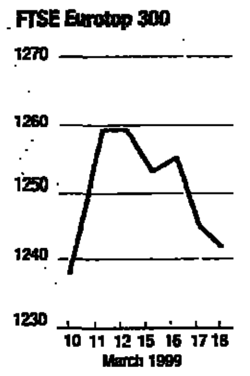
ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
DellCmp	23,146,300	42⅞	−1⅛
Intel	14,531,800	120⅜	+⅝
Novell	12,945,100	26	+1⅞
Oracle	11,859,000	29⅛	−⅝
Global Cs	11,465,200	47⅜	−4⅞
Micsft	11,035,900	167⅜	−1⅞
Cmpwre	9,624,500	28⅝	+1⅛
MCIWcm	8,587,800	89⅞	+1⅞
ApplMat	7,079,500	63⅞	+⅛
SunMic	7,064,000	112⅜	+2⅝

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
GdyFmCtn	11⅞	+1⅝	+18.8
BellPwt	34⅞	+5⅝	+18.8
SipexCp	12⅜	+1⅞	+17.4
ClarerC	12⅝	+1⅝	+17.2
Downs			
K Swiss	55⅛	−6⅛	−10.3
Clarfy	26⅝	−2⅝	−9.1
Global Crs	47⅜	−4⅜	−8.5
AspenT	11⅛	−1⅛	−8.4





JAPAN

	Mar 18	Mar 17	Mar 16	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	15717.92	16268.11	16072.82	17264.3	12790	38915.9	85.25

Day's high: 16303.12. Day's low: 15717.92.

TOKYO TRADING ACTIVITY — Volume : 1,301,380,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Sakura	64,263,000	366	+15
FujiBk	36,913,000	715	+16
MitTrB	31,341,000	176	+11
NpStl	28,013,000	235	−6
ShokuB	24,879,000	201	+11
Nikko5	24,277,000	532	+27
SumTrB	21,398,000	505	+25
YasTrB	21,266,000	142	
Nomura	19,816,000	1301	+1
NwJpSc	18,677,000	255	+50

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
NwJpSc	255	+50	+24.4
AshiBk	230	+28	+13.9
YkhmBk	315	+32	+11.3
ChwoTB	821	+73	+9.8
Downs			
MtStl	92	−21	−18.6
Tekken	162	−36	−18.2
FujiCb	80	−16	−16.7
Hasekio	77	−14	−15.4

GERMANY

	Mar 18	Mar 17	Mar 16	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	5013.62	5077.43	5094.63	6171.43	3896.08	6171.43	931.18

Day's high: 5038.37 Day's low: 4985.18

FRANKFURT TRADING ACTIVITY — Volume : (u)

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Luftnn	485,183	21.55	−0.15
Dt Bk	375,360	50.4	−1.5
Siemns	251,908	62.2	+0.5
Bayer	237,077	35.75	−0.05
Cmmzbk	218,024	27.7	−0.25
DmlrCh	206,333	84.6	−0.8
H'chst	193,598	43.5	+0.9
BASF	185,938	34	−0.4
Veba	147,610	51.95	−0.85
DrsdBk	142,356	37.5	−0.6

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Rwetga	155	+14	+9.9
B'cdorf	70	+4.3	+6.5
Hochtf	33	+2	+6.5
KlbnPr	17.8	+1	+6.0
Downs			
Sixt	58	−3.5	−5.7
Degfrs	34.3	−1.6	−4.5
Mannesm	114.5	−4.7	−3.9
SAP	247.5	−9	−3.5

FRANCE

	Mar 18	Mar 17	Mar 16	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4152.37	4170.01	4186.35	4388.48	2882.54	4388.48	984.61

Day's high: 4181.53 Day's low: 4093.37.

PARIS TRADING ACTIVITY — Volume : 744,087,790

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
FrTele	2,473,441	75.5	−1
Renault	2,018,700	32	+0.6
BNP	1,382,634	81	+1
ThomPA	1,234,050	43.7	+0.2
Axa	1,090,953	127.1	−1.4
EfAqu	1,062,196	123.4	+1.8
Alcatel	970,200	112.9	−1.6
Paribas	774,354	101.9	+1.9
TotalB	770,277	109.7	+1.7
Alstom	710,757	22.5	−0.25

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Cergrs	50.2	+5.1	+11.3
Seb SA	69.8	+5.4	+8.4
Canal+	253.8	+12.8	+5.3
LVMH	231.2	+10.7	+4.9
Downs			
GrdVsn	20.00	−0.95	−4.4
G'ptys	36.7	−1.55	−4.1
ErilSay	128	−5	−3.8
Bygues	222.5	−8.5	−3.7

UK

	Mar 18	Mar 17	Mar 16	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6114.3	6140.6	6201.9	6335.7	4648.7	6335.7	986.9

Day's high: 6161.4 Day's low: 6074.9.

LONDON TRADING ACTIVITY — Volume : 1,172,400,900

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Shell T&T	64,369,910	412	+15
BP Amoco	32,620,890	1028	+27
Hampton Trst	17,781,050	17½	−1½
SmthBchm	16,964,720	808½	−15
BTR Siebe	13,679,840	265	
Safeway	13,442,380	242	+4
Tesco	13,127,190	159	−2
Prudential	12,934,050	785½	+8
BT	12,461,540	974	−22½
Albert Fisher	12,397,920	5	

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Versailles	2	+¾	+60
Voda Net	177½	+65	+57.8
Longmead	28½	+7	+32.6
Aspen	46½	+7½	+18.3
Downs			
Pubs'n'Bars	37½	−7½	−16.7
Nortelo	212½	−27½	−11.5
Scoot.com	25	−3	−10.7
Geo Intlmedia	78	−9	−10.3

INDEX FUTURES

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
S&P 500							
Mar	1293.00	1317.50	+18.40	1319.00	1293.00	47,358	90,356
Jun	1311.40	1331.00	+19.20	1331.50	1301.80	124,673	349,429
Nikkei 225							
Jun	16100.0	15780.0	−380.0	16260.0	15680.0	40,392	195,333
Sep	16040.0	15890.0	−120.0	16200.0	15890.0	6	3,493
CAC-40 (200 x index)							
Mar	-	4155.0	−17.5	4167.0	4102.0	68,393	136,224
Apr	–	4158.5	−17.5	4171.0	4110.0	1,559	8,183
DAX							
Mar	5035.0	5027.0	−35.0	5045.0	4982.0	70,515	210,400
Jun	5064.0	5056.0	−35.5	5074.0	5011.5	41,273	209,628
OMX							
Mar	713.50	705.50	−11.50	714.00	701.75	28,142	107,275
Apr	712.00	701.00	−15.50	712.00	700.75	5,012	16,841
EUREX							
Mar	7199.0	7204.0	−23.0	7215.0	7115.0	38,515	81,188
Jun	7149.0	7155.0	−17.0	7168.0	7065.0	25,800	84,486

Open interest figures for previous day

WORLD MARKETS AT A GLANCE

Country	Index	Mar 18	Mar 17	Mar 16	1998/99 High	1998/99 Low	✣ Yield	✣ P/E
Argentina	General	17377.53	17480.71	17425.86	23495.50 23/3/98	12383.10 10/9/98	3.93	13.9
✣[illegible]								
Australia	All Ordinaries	2967.7	2977.8	2989.2	2982.30 16/3/99	2458.20 1/9/98	2.79	24.1
	All Mining	574.6	580.6	583.9	713.10 23/4/98	489.80 31/8/98		
[illegible]								
Austria	ATX Index	1197.43	1202.82	1213.35	1628.58 28/5/98	992.06 1/10/98	1.94	13.1
[illegible]								
Belgium	BEL20	3315.17	3342.52	3348.24	3881.92 6/1/99	2357.78 10/1/98	1.55	21.6
[illegible]								
Brazil	Bovespa	10887.0	10935.0	10658.0	12288.00 15/4/98	4761.00 10/9/98	na	na
✣[illegible]								
Canada	TSE 100♦	401.71	401.61	403.34	476.53 25/5/98	324.91 5/10/98	1.67	18.8
	Metals Minls♦	3297.54	3229.10	3228.32	4390.01 10/3/98	2580.10 31/8/98		
	TSE300Comp♦	6598.50	6593.82	6619.82	7822.30 22/4/98	5335.70 5/10/98		
	Portfolio§§	3500.31	3497.42	3524.60	3965.81 25/5/98	2719.24 5/10/98		
✣Flat at midsession as firm energy and metal shares offset lagging real estate and communication issues.								
Chile	IGPA Gen♥	3987.52	3981.81	3984.88	4981.95 17/3/98	2980.95 14/9/98	3.11	13.2
✣Traded slightly higher with investors closely tracking Wall Street. Blue-chip Enersis was unchanged.								
China	Shanghai B	24.29	22.40	22.40	59.58 10/2/98	21.38 9/3/99	1.54	27.5
	Shenzhen B	47.57	46.64	46.27	98.97 10/2/98	41.56 10/3/99		
Retail buying on hopes that market had bottomed pushed hard-currency shares sharply higher on thicker volumes.								
Colombia	IBB	(c)	921.14	916.46	1431.48 7/1/98	776.17 14/10/98	na	na
Czech Republic	PX 50	373.1	375.7	376.7	517.38 23/3/98	308.88 8/10/98	na	na
Dipped following directionless day. Power utility CEZ suffered most, shedding 5.3 per cent on lower prices speculation.								
Denmark	CopenhagenSE	578.75	575.19	585.51	778.84 7/4/98	585.51 16/3/99	1.8	17.4
Shrugged off declining European markets to end higher for third day running.								
Egypt	Cairo SE Gen	446.39	445.15	445.31	447.82 1/2/99	345.49 2/2/98	na	na
Ended higher as activity concentrated on selected blue chips such as Commercial International Bank and MobiNil.								
Finland	Hex General	6179.40	6254.67	6318.85	6418.28 11/3/99	3220.43 12/1/98	1.63	24.3
Underperformed other western European markets, with Nepton Maritime retreating again after sharp rise earlier this week.								
France	SBF 250	2627.40	2637.14	2648.52	2790.73 17/7/98	1873.10 12/1/98	2.17	21.4
	CAC 40	4152.37	4170.01	4186.35	4388.48 17/7/98	2882.54 12/1/98		
Recovered from early lows after Wall Street opened stronger. LVMH and Canal Plus posted strongest gains.								
Germany	FAZ Aktien	1599.34	1619.99	1628.29	1940.80 20/7/98	1250.58 2/10/98	1.37	19.6
	DAX‡	5013.62	5077.43	5094.63	6171.43 20/7/98	3896.08 8/10/98		
Investors turned sellers ahead of today's triple witching futures and options expiry. Siemens rose on new US acquisition.								
Greece	Athens General	3680.28	3630.82	3598.09	3680.28 18/3/99	1380.13 29/1/98	1.35	28.3
	FTSE/ASE 20	2267.34	2247.37	2246.84	2267.34 18/3/99	755.18 29/1/98		
Soared to record close, with banks in focus on optimism prime minister would emerge from party congress with new mandate.								
Hong Kong	Hang Seng	10659.32	10940.07	10911.25	11810.80 25/3/98	6660.42 13/8/98	3.26	15.6
	HSCC Red Chip	804.60	809.37	780.69	1779.08 27/2/98	578.87 1/9/98		
Sharp falls in Tokyo dragged shares further down from early weakness.								
Hungary	Bux	5489.80	5717.77	5784.72	9016.38 23/4/98	3776.02 21/9/98	na	na
Fell sharply as weakness in Asia and Europe compounded concerns about emerging European economies.								
India	BSE Sens.	(c)	3872.71	3744.18	4280.96 21/4/98	2764.16 20/10/98	na	na
	S & P CNX 500	755.27	741.94	736.74	815.62 21/4/98	557.68 20/10/98		
Selective buying by funds, with focus on pharmaceuticals and selected blue chips, sent market higher at close.								
Indonesia	Jakarta Comp.	(c)	387.88	379.45	554.10 2/2/98	256.83 21/9/98	8.82	24.8
Broadly higher, with shares continuing to benefit from recent banking reforms and IMF letter of intent.								
Ireland	ISEQ Overall	5297.67	(c)	5297.80†	5471.81 21/4/98	3745.11 8/10/98	2.01	19.5
Recovered from early lows to finish with head above water. Gains in major banks offset by losses in blue chips.								
Israel	Tel Aviv 100	338.85	339.24	339.24	339.24 15/3/99	249.19 8/10/98	na	na
Closed lower on profit-taking with Bezeq Israel Telecom off 2.2 per cent after employees shut down market in strike.								
Italy	BCI Comit 30	370.04	368.43	368.06	388.60 20/7/98	248.51 9/10/98	1.97	25.8
	Banca Com Ital	1558.63	1568.55	1572.7	1654.36 7/4/98	1063.58 9/10/98		
	Mibtel General	25087.0	24890.0	24945.0	26377.00 6/4/98	16761.00 9/10/98		
The only large European market to end in the black, closing at the session's high following a late rally in Eni.								
Japan	Nikkei 225	15717.92	16268.11	16072.82	17264.30 3/3/98	12880.00 9/10/98	0.85	58.6
	Nikkei 300	247.25	253.74	249.33	257.43 10/2/98	192.30 9/10/98		
	Topix	1231.24	1260.09	1240.89	1300.30 10/2/98	988.11 15/10/98		
	2nd Section	1464.04	1464.57	1451.78	1464.57 17/3/99	1028.84 13/10/98		
Slipped on heavy volumes in wake of recent sharp gains. Falls beat rises by 10 to 3.								
Jordan	Amman SE	181.87	182.86	182.89	185.25 8/3/99	159.46 18/11/98	na	na
Malaysia	KLSE Comp.	515.34	511.85	511.90	745.36 27/2/98	262.78 1/9/98	2.76	14.7
Maybank rose 3.7 per cent and Tenaga Nasional lifted 3.4 per cent while falls beat rises 4 to 3.								
Mexico	IPC	4851.91	4855.17	4890.39	5294.88 2/1/98	2856.18 10/9/98	1.1	16.6
✣Turned negative after slow first-half session despite resilient peso.								
Morocco	CASA	804.73	797.42	794.10	883.98 1/9/98	668.57 21/1/98	na	na
Closed nearly 1 per cent higher, pulled up by gains in blue chips including ONA Group and SNI.								
Netherlands	CBS TtlRtnGen	1330.1	1329.8	1330.1	1493.00 20/7/98	974.90 8/10/98	2.11	27
	CBS All Shr	740.2	740.0	740.2	845.00 27/7/98	548.10 8/10/98		
Ended lower after cautious day, with investors eyeing today's options expiry. Nedlloyd rose 58.3 per cent on divestment.								
New Zealand	Cap. 40	2141.43	2169.91	2182.32	2350.02 20/3/98	1688.24 3/10/98	5.04	22
Selling program in top 10 stocks pushed index down, while demand was held back by upcoming cash calls.								
Nigeria	SE All-Share	5412.32	5424.40	5416.96	6504.87 11/3/98	2236.40 12/1/98	na	na
Sharp drop in oil marketing company Mobil Nigeria dragged market in its fall.								
Norway	Oslo SE Ind	1830.67	1818.22	1820.41	2370.68 4/5/98	1359.78 8/10/98	2.4	11.9
Among few European markets to post gains as oil-related stocks forged ahead on leap in oil prices.								
Pakistan	KSE-100	1054.93	1060.76	1056.47	1746.31 2/1/98	765.73 14/7/98	na	na
Hub Power slipped 3.1 per cent ahead of today's court decision on tariff dispute with government.								
Peru	Lima Gen	1449.26	1440.06	1449.46	1903.91 4/5/98	1158.50 21/9/98	na	na
Philippines	Manila Comp	2024.05	1982.79	1981.84	2311.42 25/3/98	1082.18 11/9/98	1.35	14.4
Broadly higher in active trade as earlier easing of monetary conditions stimulated demand for shares.								
Poland	Wig	13705.2	13651.4	13807.0	18582.70 11/3/98	10473.70 9/10/98	2.12	11.5
Closed lower after spending spell in positive territory as foreign investors failed to return to market.								
Portugal	BVL 30	4370.85	4454.96	4565.41	6176.89 22/4/98	3589.08 2/10/98	2.22	24.9
	PSI 20	10063.08	10262.06	10527.79	14283.00 22/4/98	8114.51 2/10/98		
Few signs seen of sustained recovery as shares tested lowest intraday levels since last October.								
Russia	RTS	84.52	90.02	86.62	411.81 5/1/98	38.53 5/10/98	na	na
Shares lower although losses by no means across the board as market paused after recent run-up.								
Singapore	SES All-S'pore	391.57	392.61	397.81	437.98 19/3/98	253.20 4/9/98	2.09	21.2
	Straits Times	1468.07	1470.16	1489.54	1698.75 19/3/98	805.04 4/9/98		
Straits Times index slipped back from intraday high of 1,480.75 as prices reacted to falls in Tokyo.								
Slovakia	Sax	82.70	82.59	81.57	182.48 5/1/98	81.40 3/3/99	na	na
Recovery in steelmaker VSZ lent support to broader market.								
South Africa	JSE All Share	6479.7	6519.9	6505.6	8358.70 20/4/98	4694.40 11/9/98		
	JSE Gold	914.2	930.8	936.1	1310.80 8/10/98	672.80 18/3/98		
	JSE Indl.	7582.6	7583.4	7551.3	9942.70 20/4/98	5246.90 11/9/98		
Blue chips lower in record turnover of R2.9bn. Financials marked down as market closed futures positions.								
South Korea	KoreaCmpEx**	578.98	600.52	601.83	640.95 11/1/99	280.00 16/6/98	0.97	25.9
Slid after early buying support vanished. Falls swamped rises nearly sevenfold and banks fell 8.2 per cent.								
Spain	Madrid SE	890.56	897.34	904.79	947.82 17/7/98	642.29 5/10/98	1.87	21.9
Argentaria and Popular, still considered by analysts to be possible takeover targets, were among day's biggest losers.								
Sri Lanka	CSE All Share	529.91	532.41	529.94	789.70 4/5/98	461.08 3/9/98	na	na
Selling by foreign funds weighed on prices.								
Sweden	AffarsvarldnGen	3392.0	3412.6	3431.4	3955.60 20/7/98	2411.70 8/10/98	1.83	20.6
Shares sharply lower on back of renewed selling of Ericsson, despite its launch of new mobile phones.								
Switzerland	SMI Index	7195.7	7231.8	7218.9	8412.00 21/7/98	5126.90 5/10/98	1.36	23.8
	SPI General	4565.45	4580.65	4571.79	5237.38 20/7/98	3311.28 5/10/98		
Foreign investors said to be reduce holdings in Novartis and switching instead to Roche.								
Taiwan	WeightedPr.**	6885.01	6757.07	6672.23	9277.09 2/3/98	5474.79 5/2/99	1.5	20.7
Foreign demand drove shares higher on heavy volumes of T$145bn. Electronics sector jumped 3 per cent.								
Thailand	Bangkok SET	362.91	358.80	354.95	558.92 3/2/98	207.31 4/9/98	0.9	7.4
Firm ahead of today's auction of closed finance company assets. Banks rose 4.7 per cent and financials lifted 2 per cent.								
Turkey	IMKB Nat. 100	4169.87	4067.84	3909.05	4530.99 16/7/98	1852.28 8/10/98	3.12	16.9
Shares higher on growing confidence that April elections would go ahead as scheduled in spite of efforts to delay them.								
Venezuela	IBC	3882.58	3982.31	3986.54	7858.92 23/3/98	2894.70 10/9/98	na	na
✣Leap in oil prices failed to provide lead as market slid into negative territory in early trading.								
Zimbabwe	ZSE Industrial	8702.44	8600.91	8559.51	8795.71 31/3/98	5441.85 1/9/98	na	na
Market climbed to 15-month high and brokers forecast further gains on optimism over positive stream of 1998 results.								
WORLD	FT/S&P World(S)	(u)	319.37	319.84	319.84 16/3/99	242.38 5/10/98	na	na
	MS Capital IntS	1191.0*	1195.0	1197.6	1197.50 16/3/99	888.60 12/1/98	na	na
CROSS-BORDER	DJ Stoxx 50	3538.27	3558.57	3580.77	3878.82 20/7/98	2433.07 8/10/98		
	DJ Euro Stx 50	3579.21	3589.16	3606.67	3885.36 6/1/99	2419.23 8/10/98		
	FTSE E300	(u)	1245.85	1255.25	1327.68 20/7/98	893.55 5/10/98		
	FTSE E100	(u)	2888.87	2907.97	3066.91 20/7/98	2049.91 8/10/98	na	na
	HSBC Drgn	(u)	235.42	234.33	273.91 26/3/98	181.71 5/10/98	na	na
	ING Brngs Emrg	(u)	122.65	121.74	123.12 7/1/99	86.64 11/9/98	na	na

** Sat Mar 13. Taiwan Weighted Price (c) §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ XETRA-DAX after-hours index: Mar 18 - 5025.78 -38.80. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ✣ Yields and P/E ratios are based on Datastream Total Market Indices. ✣ Midsession.

THE NASDAQ-AMEX MARKET GROUP

4 pm close March 18

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

AMEX

4 pm close March 18

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

EASDAQ

The EASDAQ All Share Index (EASI) for 18th March: 971.53 up 0.07% Day's high: 972.75 Day's low: 961.31. EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies. [illegible]

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
[illegible]											

STOCK MARKETS

Equities uninspired as bank rates on hold

WORLD OVERVIEW

Equity markets looked generally uninspired yesterday as some bourses approached derivatives expiries and investors searched for reasons to maintain the recent rally, *writes Philip Coggan.*

New York, Frankfurt and London all have derivative contracts expiring today. Normally such double or triple witching days are marked by volatility in share prices and can result in investor caution ahead of the event.

European markets showed little sign of optimism that the European Central Bank would cut rates – a view confirmed after the continent's markets closed – despite more evidence of weakness in the region's core economy.

The latest Ifo survey of business confidence in Germany showed a further weakening with the index falling to 89.8 from 91.1. That followed Wednesday's statement from the German finance ministry that there was no sign of an early economic pick-up.

Meanwhile, US consumer price data showed, as expected, a 0.1 per cent rise on the month, *leaving the headline* rate of inflation at 1.6 per cent.

The data was seen as confirmation that the Federal Reserve would have no reason to raise rates when its open market committee next meets on March 30. Wall Street was mixed in early trading with the Dow still well short of the 10,000 mark briefly reached on Tuesday.

In Asia, the recent strong run of the Tokyo market came to an abrupt halt, with *the Nikkei 225 falling 3.4 per* cent – and back below 16,000 – as investors rushed to take profits.

Hong Kong also slipped back, although the Hang Seng stayed well above the 10,000 level.

The issue of whether Japan has turned the corner is attracting much debate among the global investment community.

Jason James of HSBC Economics says: "Cynical views on restructuring are under*standable, but the pace and* quality are clearly picking up. We belive the recent firmer tone in the stock market is justified by this and that there is further upside."

Goldman Sachs comments: "There is definitely a long-term positive case for Japanese equities if cyclical recovery and widespread restructuring result in a rerating of the market.

"However, our Tokyo-based economists and strategists are not convinced that *economic recovery* will be sustained or that restructuring will prove to be meaningful. We are not tempted to overweight the Japanese market and we remain neutral versus the global benchmark."

Dow climbs back above 9,900 level

AMERICAS

US shares picked up as cautious buying helped to send the Dow Jones Industrial Average back above the 9,900 level, *writes John Labate in New York.*

Since briefly touching the 10,000 mark earlier in the week, investors have been slowly unloading shares, suggesting that market sentiment was hurt more than helped by adding a fifth digit to the blue-chip index.

But higher prices in the internet and financial sector helped boost the market early on. By early afternoon the Dow was 23.86 higher at 9,903.27. The broader Standard & Poor's 500 index was even stronger, up 8.09 or 0.6 per cent at 1,306.91.

Helping the mood on Wall Street were higher prices in the US Treasury market after the release of a stronger-than-expected trade deficit in January.

The new figure has forced analysts to trim back their expectations of first-quarter gross domestic product, and helped to boost the price of the 30-year bond. It was up ¾ in midday trading to 96$\frac{21}{32}$, sending the yield down to 5.474 per cent.

Among Dow stocks, American Express was $3¼ higher at $124¼ after J.P. Morgan initiated coverage of the financial services company with a "buy" rating.

Among the most active issues, Boston Scientific, a producer of medical devices, soared $5¼ to $38⅝ after CS First Boston raised its rating. Frontier Corp, the telecoms company, was 1\frac{15}{16}$ higher at $52⅝ after the company confirmed plans for it to be acquired by Global Crossing in a $11bn deal.

The Nasdaq composite index gained 14.69 at 2,443.66. Internet stocks were boosted after book retailer Barnes & Noble announced details of its initial public offering for its online division, news that sent the company's shares more than 17 per cent or $5 higher at $33⅞. Its rival, Borders Group, gained 1\frac{1}{16}$ or more than 7 per cent at $15⅝.

TORONTO was little changed at midsession as gains in energy and base metals were all but cancelled out by weakness in real estate, precious metals and communications. The 300 composite index was 2.05 higher at 6,595.87 in active volume of 54.4m shares.

The oil and gas sector climbed 2.6 per cent on the back of firmer oil prices, which rose to five-month highs before pulling back.

Shares in T. Eaton's tattered retail empire rose for a second day as investors bought into revived takeover rumours. Eaton's shares climbed 85 cents or 34 per cent to C$3.35.

Real boosts São Paulo

SAO PAULO moved higher after a slow start as a firm Wall Street discouraged investors from taking profits. The Bovespa index was up 277 or 2.61 per cent at 10,912 at midsession.

Sentiment was boosted by a rise in the Real on the back of new import financing regulations expected to attract dollars.

MEXICO CITY softened slightly, with the IPC index retreating 20.37 or 0.42 per cent to 4,834.80 despite a steady peso and firmer oil prices. The rise in oil, which provides a third of state revenue, was seen to cap losses.

In BUENOS AIRES, the Merval index had gained 1.5 or 0.36 per cent to 413.46 at midsession.

Jo'burg enjoys busiest day

SOUTH AFRICA

Johannesburg was lower after another busy day, which saw record turnover of R2.9bn.

The market also posted an all-time high of 30,338 trades, beating the previous record of 29,053 trades on June 18 1997.

The overall index lost 40.2 to 6,479.7 as traders closed or rolled forward March positions during the afternoon.

Industrials were 0.8 lower at 7,582.6. Golds lost 16.6 or 1.8 per cent to 914.2.

LVMH defies Paris bears

EUROPE

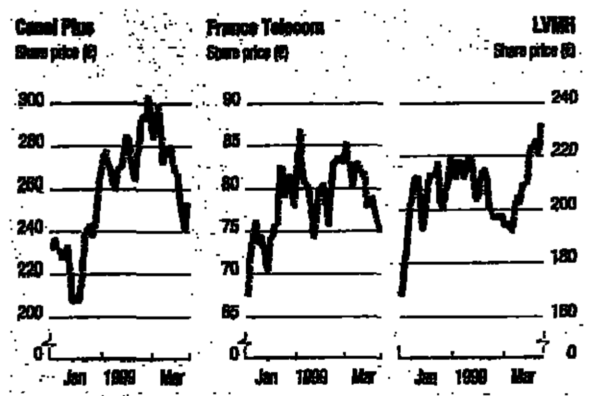
Weakness in market heavyweight France Telecom, coupled with losses in Tokyo and a fragile-looking rally on Wall Street, kept PARIS in the red despite a last-minute comeback. The CAC-40 ended 17.64 off to 4,152.37.

LVMH dismissed the bearish mood, forging €10.70 or 4.9 per cent ahead to €231.20 after the company confirmed it had registered a rebound in activity in 1999.

LVMH's subsidiary, Christian Dior, also rose on the news despite reporting a net 1998 fall in net profit. Shares added €4.80 or 4.2 per cent to €118.

Canal Plus was back into the black following a seven-day fall after Goldman Sachs raised its target price for the stock. Shares in the group rose €12.80 or 5.3 per cent to €253.80.

The FTSE Eurotop 300 index fell 3.42 or 0.27 per cent to 1,242.43. **See Euro Prices page.**



Chargeurs ran into its upper limit to close €5.10 or 11.3 per cent ahead to €50.20 after the company said it would buy 25 per cent of its shares.

France Telecom failed to surprise investors with in-line 1998 results that sent shares €1 lower to €75.50.

An upbeat 1999 profit forecast did not dispel the gloom although the stock pared some of its losses in late trading.

Eridania Beghin-Say lost €5 to €126 after the company downgraded its 1999 earnings forecast on the back of low prices for starch products and narrow margins on oilseeds.

FRANKFURT was weaker although the Xetra Dax index recovered from its lows to close safely above 5,000 after a thin, uncertain session ahead of today's triple witching futures and options expiry. The blue-chip index finished 36.80 lower at 5,025.79.

Siemens bucked the trend, climbing 81 cents to €62.10 on news that it was buying another US internet company and planned to shed 1,800 jobs in its power-plant division.

Degussa-Huels was a loser, 72 cents lower at €34.50 in the wake of news that it planned to spin off three non-core businesses.

Deutsche Bank gave up €1.07 to €51 after announcing plans to increase its equity capital to fund its Bankers Trust acquisition and prepare for consolidation in Europe's banking sector.

AMSTERDAM closed slightly lower, with the AEX index shedding 2.28 to 537.59 after the timid rise on Wall Street rescued it from intraday lows.

Nedlloyd, the shipping and transport group, soared €7 or a stratospheric 58.33 per cent to €19 after the company said it would sell its European transport and distribution operation to Deutsche Post.

Gucci moved €4.50 or 7.6 per cent ahead to €63.90, buoyed by a sharp rise in its French bidder LVMH.

MADRID ended in negative territory despite a half-hearted recovery that left the general index 6.78 off to 890.56.

Banks turned in a poor performance again as BBV came under pressure on *news that it had sold a 1.2* per cent stake in France's Promodès in a bid to offset losses in Latin America. Shares in the bank slid 9 cents to €14.04.

Argentaria also weakened, shedding 86 cents to €22.11, the sharpest drop in the blue-chip Ibex-35 index, while Banco Popular conceded €1.40 to €61.10.

Merging rivals BCH, up 10 cents to €11.37, and Santander, up 15 cents to €18.96, went their own way.

HELSINKI underperformed other European markets, losing 75.27 or 1.2 per cent to 6,179.40 on the general index.

Neptun Maritime, the ferry operator being courted by Sea Containers, dropped another 5 cents to €2.25.

Raisio plunged after rising healthily earlier in the week on optimism that it would launch its cholesterol-cutting supplement ahead of rival Unilever. Shares dropped a sharp 40 cents or 5.1 per cent to €7.50.

MILAN picked up in afternoon trade and closed at the session's high, lifted by a late rally in Eni.

The real-time Mibtel index added 197 to 25,087. Eni was higher in late trade, with foreign investors said to be aggressive buyers.

The shares put on 3.5 per cent at €5.94 on news that Eni subsidiary Agip was part of a multinational consortium reported to have made the first private-sector oil and gas discovery in Venezuela since the nationalisation of oil assets in 1976.

Investors also kept a close eye on BCI, hoping the day's board meeting would produce news on its alliance plans.

BCI rose 4.8 per cent to €6.98. Banca di Roma edged 0.9 per cent lower to €1.43 and Unicredito, hotly tipped as an alternative BCI merger partner, was 0.1 per cent higher at €5.19.

ZURICH lost ground as the weaker dollar and today's options expiry took a toll.

The SMI index finished 36.1 weaker at 7,195.7.

Novartis remained under pressure losing SFr10 to SFr2,470. The stock ran into selling after publishing profit figures for 1998 on Tuesday, with foreign investors in particular reducing their holdings and shifting into Roche. Certificates in Roche edged up SFr60 to SFr18,130.

Cement maker Holderbank, sharply higher during recent sessions in response to analysts' recommendations, suffered from profit-taking. The shares lost SFr16 to SFr1,646.

Among financials, UBS lost SFr7 to SFr475 while Swiss Life gave up early gains to close SFr1 easier at SFr994. Baloise finished SFr4 weaker at SFr1,258 after initially profiting from the expiry of two options.

Speculative buying sent ABB SFr7 higher to SFr1,927 amid rumours that the company intended to sell its power plant business to French engineering firm Alstom. ABB declined to comment.

Personnel services group Adecco rose sharply, adding SFr22 to SFr790. Analysts were unable to point to any news to account for the rise, but said a foreign bank was buying the stock.

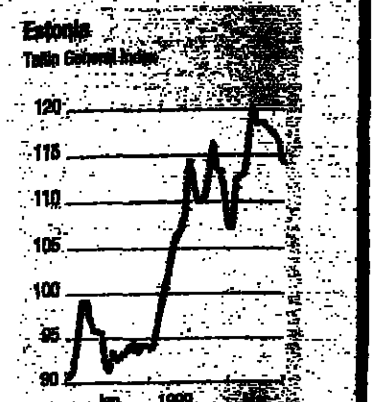
Written and edited by Michael Morgan, Bertrand Benoit, Paul Gregan and Peter Hall

EMERGING MARKET FOCUS

Poll confirms switch to west

Investors on the Tallinn stock exchange took this month's parliamentary elections in their stride, confident that the outcome would confirm Estonia's commitment to liberal economic policies, accession to the European Union, and the currency board, which pegs the kroon to the D-Mark.

Indeed, a three-party centre-right alliance won a slim *majority* in the March 7 poll. The new government is likely to focus on overhauling Estonia's bloated public administration, and plans to lower corporate taxes on reinvested income.



The news has barely moved the TALSE index. After gaining 1.7 per cent last week, it has given back 2.5 per cent in four days.

Nonetheless, the bourse has been riding high on the tail of the success of the initial public offering last month of Estonian Telecom. The stock, priced on issue at EKr85, was initially trading at about EKr115. The share price came down to about EKr105 yesterday, but the euphoria has spread to other blue chips.

Expecting across-the-board gains, small investors have piled into the shares of leading banks Hansabank and Uhisbank. Hansabank, partly owned by Sweden's Swedbank, has rebounded from its dismal performance last year. It has posted strong results in the first two months of 1999, and has convinced the market it has dealt effectively with its loan portfolio, which was hit by the collapse of Estonian exports to Russia last year.

Stock in Uhisbank, partly owned by Skandinaviska Enskilda Banken of Sweden, has shared Hansabank's good fortune. "There was a kind of spill-over effect from Telecom and Hansabank ... into Uhisbank, which was not really justified," said Paavo Pold, banking analyst at Tallinvest Suprema Securities in Tallinn.

Analysts consider Uhisbank's deposit base, top heavy with government funds, as volatile. Its loan book has been shrinking, *and it has yet to convince* investors it has a clean bill of health. "Hansabank has convinced investors that it has weathered the crisis last year. Uhisbank still has to do that," Mr Pold added.

In spite of the gloom-and-doom talk that marred the electoral campaign, the Estonian economy is looking, if not vibrant, at least solid. The current account deficit, whose size used to raise fears of a forced devaluation, has subsided to about 9 per cent, and interest rates have decreased substantially.

While many companies are still trying to cope with the loss of Russian sales, there are signs exporters are not waiting for a Russian recovery, but seeking new markets in the west, said Aare Jarvan, economic adviser to the prime minister.

The cautious optimism has even affected Norma, a seat-belt maker and one of Estonia's top exporters to Russia. Though it has at times had to resort to barter with its Russian partners and is struggling to switch some production toward western customers, its stock has risen on rumours of a dividend and Telecom euphoria.

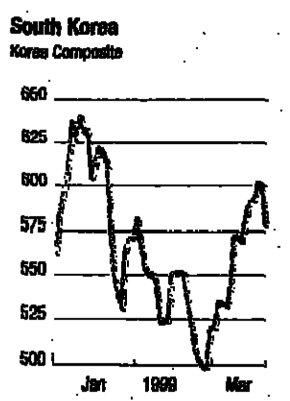
Matej Vipotnik

Tokyo falls back on profit-taking

ASIA PACIFIC

Profit-taking was the name of the game in TOKYO as investors took advantage of the Nikkei 225's recent surge to reap rewards, *writes Michiyo Nakamoto.* Yesterday's *fall* came after a 780-point rise in the Nikkei over the previous three days.

The benchmark average fell 550.19 or 3.4 per cent to 15,717.92, the day's low, off a high of 16,303.12, while the broader-based Topix index declined 28.85 to 1,231.24. The Nikkei 300 also fell 6.49 *to 247.25.*



Trading was heavy following the high level of activity over the past few days, with 1.301bn shares changing hands compared with 1.223bn on Wednesday. This was the highest level of trading so far this year.

Although the move to take *profits* hit almost all sectors, the expectations were that the market would continue its upward trend supported by foreign fund inflows.

Losing issues outnumbered gainers 973 to 289 with 64 unchanged.

Activity was focused on the financial sector with heavy trading in large banks and securities companies. Among winners was Sakura Bank, the most heavily traded issue, gaining Y15 to Y366. Fuji Bank, which like Sakura was considered a laggard, also rose Y16 to Y719.

Securities companies attracted attention after reports that New Japan Securities would merge with Wako Securities to create Japan's fourth largest securities company. The news was later denied by the two companies but shares in New Japan Securities rose Y50 or 24 per cent to Y255 while Wako rose only Y1 to Y297.

Other financials, however, suffered from profit-taking. Bank of Tokyo-Mitsubishi declined Y78 to Y1,600 and Asahi Bank lost Y49 to Y636.

Profit-taking also hit Sony, which had been on a rising streak. Yesterday it lost 4.49 per cent to Y11,070.

Several issues hit record highs on positive news. Japan Tobacco, which reportedly tied up with Zeneca, hit Y1.31m before closing at Y1.25m, up Y140,000.

SEOUL tumbled 3.6 per cent as program buying, which supported the market in the morning, collapsed in the afternoon. The composite index pulled back from a high of 605.96 to close 21.54 lower at 578.98.

Brokers said futures-linked buying, estimated at about Won90bn in the morning, tumbled to nearly zero in the afternoon.

Brokers said the positive effect from a pledge by unions at Kia to engage in no labour disputes and Moody's positive report on South Korea disappeared towards the close. Kia finished Won200 lower at Won7,100.

HONG KONG fell 2.6 per cent as Tokyo's slide prompted profit-taking, but brokers said the sell-off was overdone and a rebound looked likely soon.

The Hang Seng index closed 280.75 lower at 10,659.32 but off the day's low of 10,570.18. Turnover was HK$6.5bn, up from Wednesday's HK$6bn. Finance and property stocks pulled the index down. HSBC fell HK$6 to HK$235 and Hang Seng Bank HK$3 or 4.1 per cent to HK$69.75.

TAIPEI shot up to a 1999 high amid mounting evidence that foreign investors are re-allocating funds into Taiwan. The weighted index closed 137.94 or 2 per cent higher at 6,895.01, a 25.9 per cent increase since the market began its recovery on February 5.

The electronics sector, the market's most heavily weighted constituent, surged 3 per cent. Taiwan Semiconductor added T$4 to T$109, while microchip packaging company ASE hit its upper limit, settling T$6 higher at T$82. Another big riser was the paper and rubber sector, up more than 4 per cent.

MANILA was also boosted by foreign buying. The composite index ended 41.26 or 2.1 per cent higher at 2,024.05. Traders attributed the rise to lower interest rates. Sentiment was boosted after the government said it stood by its 1999 growth target despite concern voiced by the World Bank.

FINANCIAL TIMES SURVEY

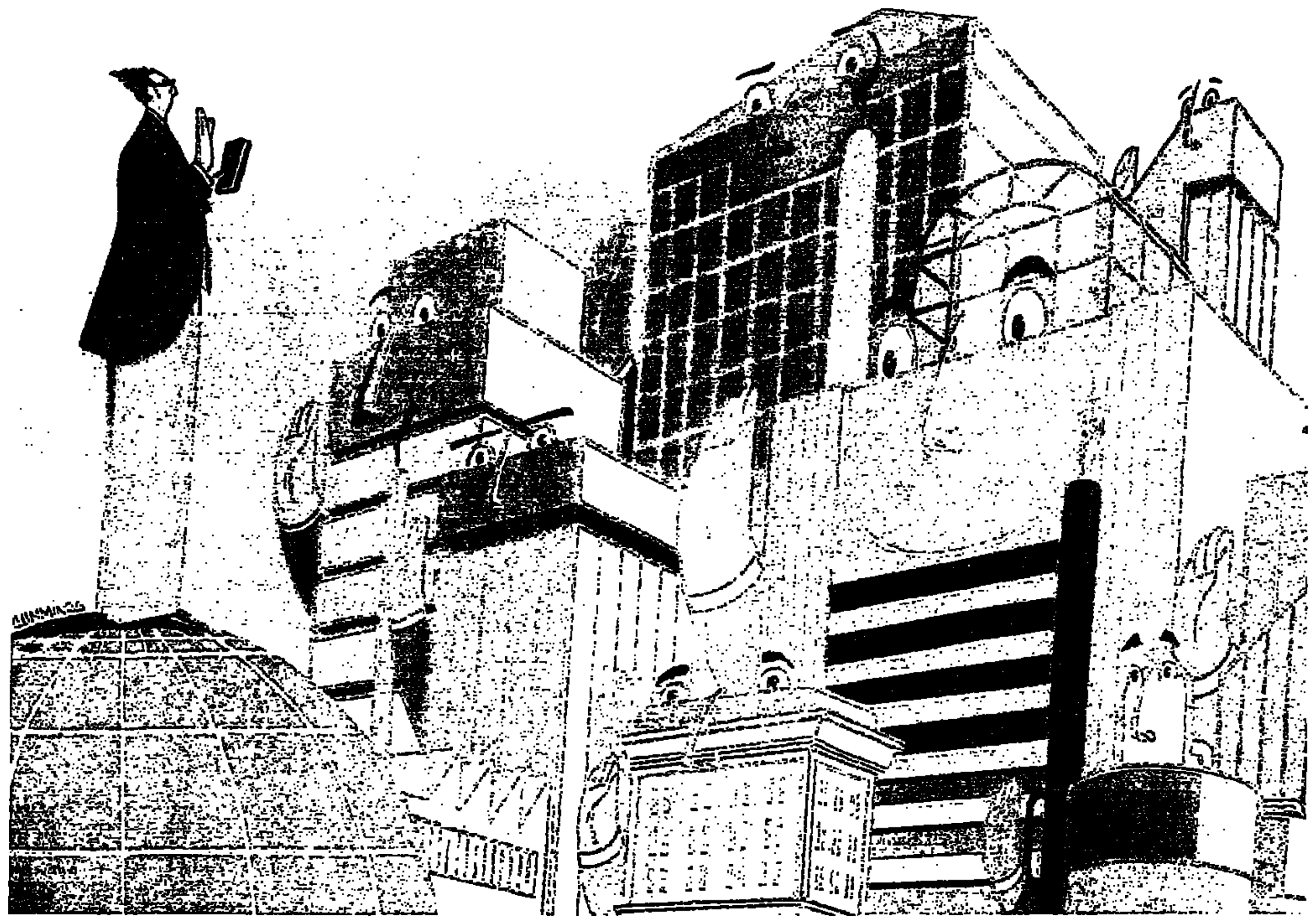
FT DIRECTOR

FRIDAY MARCH 19 1999

Quarterly review

A capital idea in search of consensus

Corporate governance is being taken seriously. Jane Martinson examines the search for an agreed code of behaviour and the differences that stand in the way of that being achieved



In the wake of stock market turmoil in Asia, Russia and Brazil, corporate governance became a popular phrase among the world's politicians and policy-makers.

Evidence of corruption and badly regulated capital markets set off alarm bells among investors who had previously appeared unconcerned about low levels of communication and transparency in some companies and countries.

Alongside calls for greater regulation to curb the excesses of hedge funds and investment banks were demands for much better management. Governance, hardly an undisputed method of increasing prosperity in developed markets, was being seriously talked about as a means for emerging economies to win back the capital that had fled to safer shores during the crisis.

From being a little-used term five years ago, corporate governance is now the subject of endless courses and conferences in universities in the UK and US in particular. It is a term used when shareholders sack chief executives, demand dramatic strategic changes or sell shares.

The exalted level of the discussions – with some of the world's leading policy-makers adding their own views – suggested that corporate governance had come of age. The various financial crises added impetus to debates raging in the world's most developed capital markets about what good governance was, what it was actually for and how it could be achieved.

Some commentators argue that differences over how to achieve good governance are driven by differences over why. Is the point of corporate governance to increase shareholder returns, prevent corruption, improve economic and social welfare, or to do all of these things?

Such questions have prompted an outpouring of research by the world's leading multilateral organisations. Over the past year, the OECD, the World Bank and the Commonwealth Association for Corporate Governance (CACG) have all issued some sort of communique on the issue of corporate governance. At the same time, private sector bodies such as the International Corporate Governance Network have been working on their own guidelines to set minimum corporate governance principles for the world's companies to operate by.

The increased interest and debate has in many ways served to raise as many questions as it answers.

Bob Garratt, the newly installed visiting professor of corporate governance at London's Imperial College who helped write the draft code for the CACG, says: "Corporate governance is suddenly flavour of the month and it's terrifying."

He believes that unless governments and multinational authorities are serious about bringing out banking reform and improving capital markets and regulation around the world, codes of conduct on corporate governance will achieve little.

Action is hampered by the fact that there are fairly wide differences of opinion about what corporate governance is for and how it should be brought about.

Some of these are highlighted by differences between the draft code of conduct issued by the OECD, due to be finalised in the next few months, and that drafted by the Commonwealth's own corporate governance association.

Although both reports offer support for what Mr Garratt at CACG calls the three overriding principles of good governance – accountability, probity and transparency – there are significant differences.

The Commonwealth report, perhaps understandably, is targeted directly at the development of good governance in emerging markets.

The report was first launched at a conference in October 1997 with a specific remit to look at how those markets could become more attractive targets for inward investment.

Mr Garratt says there are four main differences between the two papers. These are over board performance rather than conformance, stakeholders rather than shareholders, the inclusion of the public as well as private sector and whether it is right to try to create a set of values rather than a "one size fits all" model.

Put simply, Mr Garratt argues that his paper veers towards the value approach, seen as pro-emerging market, while the OECD offers the alternative more shareholder-focused, developed market view. The OECD argues with this simplification but the argument suggests the width of the gap in some areas.

An OECD team was established last summer following a draft report to look at governance across 29 countries with input from the International Monetary Fund, World Bank and IOSCO.

The final report, which will set out a series of principles to follow, is expected to be passed following a final meeting of the committee in April followed by a meeting of OECD ministers in May. It will be non-binding and will aim to recognise the different cultures and traditions of the member states.

Detractors of these multilateral codes argue that they are too broad and difficult to police to have much impact.

The needs of Madagascar, for example, which wants to attract funds from other parts of Africa, is very different from those of the UK, where a wide-ranging company law review is seeking to redefine a company's relationship with its stakeholders following three high-level reports on corporate governance.

But Andre Baladi, the Geneva-based financier and co-founder of the ICGN, argues that the code of conduct published by the OECD last year, for example, is in danger of putting too much emphasis on the process rather than the end result.

"It's too bothered with the process of things such as voting behaviour and the independence of directors, but I am interested in returns on my investment – that is the point of corporate governance," says Mr Baladi.

This argument goes to the heart of the debate about corporate governance.

Directors, whose performance is more closely measured because of this increased interest in corporate governance, could be forgiven for being confused about what exactly they should be doing.

The danger is that the debate becomes so amorphous that little is actually done.

However, the many questions raised are serving to increase awareness. As institutional investors from the US and UK spend more money outside their home market, the issue of good governance is likely to spread. Few countries in the world which wish to attract such investment can afford to ignore good governance, for whatever reason.

FT Director

Throughout Europe company boards are coming under pressure to comply with standards of behaviour and procedure that just a few years ago would have been considered unnecessary. As capital markets expand, companies wishing to tap them are being required to meet ever higher standards of conduct and procedure. Meanwhile, corporate governance codes are emerging from a variety of quarters in the US, Europe and elsewhere. The corporate governance debate, indeed, is gathering pace with a number of initiatives likely to converge later in the year. The subject is a central theme of this issue of the FT Director, with an overview of developments being complemented by reports on the changing climate in France, Germany, Italy and the UK. From these it is clear that there is division over the best course of action, for example, between those who believe there should be a "one code fits all" approach and those who feel that there should be agreed values *that should be* fashioned to suit the circumstances of the developed and developing world. A complementary article looks at the greater social responsibility that is becoming expected of companies.

And as the prospect of recession hovers over much of Europe we examine the danger signals for companies and some of the courses of action they might take in order to be better prepared for it.

In this issue we also discuss the implications of a single currency for the vehicle fleet management industry, already well developed in the UK and now becoming a bigger force across much of the rest of Europe.

In the next issue in June there will be a detailed analysis of the development of risk managment, together with articles on the roles of company doctors and of intrapreneurs.

Any comments on this issue and suggestions for future coverage would be welcome. Please contact Nicholas Leslie, Editor, FT Director, FT Surveys, Number One Southwark Bridge, London SE1 9HL. Direct Tel: +44 (0)171 873 4157. Fax: +44 (0)171 873 3197. Email: nick.leslie@ft.com.

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In this Survey

Roberto Colaninno, chairman of Olivetti: on an acquisition trail that would until recently have been unthinkable AP

ITALY by Paul Betts

Severe test for new regime

Olivetti's bid for Telecom Italia indicates how far the corporate climate has progressed

Italy's new corporate governance rules embraced in the so called "Draghi Law" are undergoing a baptism of fire.

Olivetti's hostile €53bn ($48.5bn) bid for its much bigger Italian telecommunications rival, Telecom Italia, the privatised telecommunications group with the largest stock market capitalisation of any Italian company, has put the country's new financial deregulation and corporate governance regulations at severe test.

So far, the initial signals are that the rules appear to be working and are helping to reshape and modernise Italy's capitalistic system and structure in a far more dramatic way than anyone would have imagined a few years ago. "It would be wrong to underestimate what is is happening. The situation is much improved and the international markets should recognise this," says Salvatore Bragantini, a commissioner of the Italian stock market regulator, Consob.

Before joining Consob, Mr Bragantini, a former merchant banker, was one of the harshest critics of Italy's big business system. In a hard-hitting pamphlet called *Capitalismo all'Italiana* he already warned that the days of Italian family capitalism were numbered. "It is quite absurd to think that in the western world's fifth or sixth industrial power you can continue operating a capitalistic system without a real capital market. The choice is simple. Either we develop an open market or our industrial prospects are doomed," he argued.

However, much progress has been achieved in the last two years, and Mr Bragantini is now the first to admit it. Olivetti's hostile bid attempt is only the most striking manifestation of a process that has already started transforming the country's corporate culture and the way Italians do business.

The new corporate governance rules were drawn up laboriously by a commission led by Mario Draghi, the director general of the Italian Treasury. They were designed to meet the European Union's financial deregulation requirements as well as provide the stimulus for an urgent modernisation of the country's corporate system. They were drawn up alongside a series of other significant moves, such as the government's far reaching privatisation programme, the restructuring and modernisation of the Milan stock market that has now become a private concern, and the introduction of a series of new independent regulatory authorities to referee the process of market liberalisation.

Italian companies are now obliged to draw up more transparent balance sheets, report their financial results on a half yearly basis (some are already reporting quarterly results), and organise meetings with analysts who have grown in substantial numbers in the past two years. The remuneration of company directors must now be reported, even though this is currently being challenged by one large company in the courts. Insider trading, always a prominent feature of the Italian market, is now subject to more efficient and swifter investigations, albeit still lacking the sharpness of teeth necessary to dissuade significantly the practice.

Companies themselves have been forced to adapt and modernise their structures to respond to the challenges of global markets and Italy's membership of European monetary and economic union. *Large* industrial groups traditionally controlled through a cascade of holding companies – "Chinese boxes" as they are popularly known in Italy – are streamlining their structures by reducing the number of holding companies to release greater value to shareholders. And the growing appetite of Italian retail investors for equities in the face of the sharply lower government bond yields has provided companies with further stimulus to enhance shareholder value.

But it is the Olivetti bid for Telecom Italia – the largest post second world war hostile takeover attempted in Europe – that is providing the catalyst for change. The fact that such a bid should have been mounted in Italy, where big deals have traditionally been stitched up behind closed doors between a restricted network of large industrial companies and financial institutions, is all the more remarkable.

"Nothing will quite be the same again," says a Milan investment banker. "The fact that a monolith such as Telecom Italia can become prey to a much smaller company through a highly leveraged bid means that other big groups have become possible targets," he adds, suggesting that the open market is finally coming of age in the country.

Precedents are now being set, especially on the interpretation of the country's new takeover rules. The stock market regulator has been particular vigilant in making sure that the application of these rules responded to the broad issue of an open market financial system. When Olivetti first announced its intention to bid for Telecom Italia, Consob, the regulator, judged the original offer invalid because it did not provide the required information to the market and was subject to too many conditions. This was seen as a first round success for Telecom Italia.

But a week later, Consob gave the go ahead for Olivetti's re-jigged offer (the price remained the same) *because it felt the company* this time had provided sufficient information to the market, such as the timing in April of the formal offer to the market. Round two thus went to Olivetti, because under the new takeover regulations a company under attack is restricted in taking defensive action and introducing poison pills unless it calls a shareholders' meeting in which at least 30 per cent of the voting share capital is represented. For a company like Telecom Italia, with more than 1.5m shareholders, this is quite a tall order.

Whatever the outcome of what is being described as "the mother of all takeover battles", one thing is clear. Italy, against most expectations, is increasingly adopting an Anglo-Saxon approach to capitalism. The old ways of doing business have not altogether vanished but Italy's new corporate governance is making them much harder to apply.

GERMANY by Tony Barber

Opening up – but old habits die hard

Companies are now acknowledging that secretiveness, which has been a feature of corporate life, is no longer acceptable

Few doubt that, when it comes to reshaping their companies and improving returns to investors, Germany's boardroom executives have taken significant strides in the past three to four years. Many companies, though wary of the so-called "Anglo-Saxon short-termism" that supposedly characterises the US and UK corporate scene, now openly pay homage to the god of shareholder value in a way that was rare in the 1980s and early 1990s.

To take one example, it has become almost routine for big companies to promise shareholders a return on equity, typically about 15 per cent, by a certain date – say, 2000 or 2001. In addition, companies are taking advantage of a change in the law last year that permits them to buy back up to 10 per cent of their shares, returning capital to investors. All in all, more than 60 companies have received permission from shareholders to buy back shares, ranging from big guns, such as the drugs company Schering and the retail group Metro, to the boiler-maker, Buderus, and the packaging machinery specialist, Krones.

There is even a trend towards more public disclosure of fundamental financial facts. In the past 12 months, Allianz and Munich Re, the insurance and reinsurance giants, have both announced the size of their hidden reserves, or unrealised gains on equity holdings and other investments.

Transparency is a significant feature of companies quoted on Frankfurt's Neuer Markt, the Nasdaq-style stock market, not yet two years old, for companies *specialising in high technology* products and media services. No new German company could expect these days to be listed on the stock market without being far more open about itself than it would have needed or wanted to be in the past.

However, old habits of caution and secretiveness die hard. That should come as little surprise in a country whose enviable record of prosperity over the past 50 years is attributed by many Germans to their distinctive system of corporate governance. Many *Mittelstand* companies – medium-sized, family-owned businesses that in some ways are still the backbone of the German economy – have never been enthusiastic about publishing regular accounts. But most have rarely been under pressure to do so, because they have not needed to tap the capital markets.

An increasing number of larger companies now appreciate the need for openness to shareholders. Like Deutsche Telekom, Dresdner Bank, the chemical group, Hoechst, and the two big Munich-based insurers, they see the attraction of being listed in New York or on other foreign stock exchanges and having access to a more liquid pool of shareholders.

On the other hand, it is striking how many companies remain reluctant to talk freely to fund managers and analysts. Some, though finally converted to the idea of publishing quarterly results, seem peculiarly skilled at omitting important information. An almost impenetrable maze of equity cross-holdings continues to characterise much of the corporate landscape.

However, some areas of business display more progress than others. Under recently changed accounting guidelines, *companies will* no longer be able to boost their earnings-per-share figures by making adjustments for certain taxes and acquisition costs. According to Merrill Lynch, the investment bank, this could mean that the companies in Frankfurt's blue-chip Dax 30 index will report earnings per share about 12 to 15 per cent lower than under the old method. The Dax, in the doldrums so far this year, could come under more downward pressure as investors react to this change. Nevertheless, it is to be welcomed because, even though underlying profit is not affected, it should become much easier for outsiders to measure the earnings potential of companies.

That may also be the eventual result of a recent *decision by big groups* such as Deutsche Bank, Dresdner and Munich Re to spin off their stakes in other German companies into separately managed holdings. Though designed partly just to limit tax liability, the move pleased investors who say German companies with serious international ambitions must shine a brighter light on the performance of their core activities.

Less progress is evident in attempts to reform the somewhat unwieldy two-tier board structure of German companies. The upheaval in early February at the luxury carmaker, BMW, was partly attributable to the refusal of employees' representatives on the "upstairs" supervisory board to accept as chief executive Wolfgang Reitzle, a manager backed by the *company's biggest shareholders*. For all his widely recognised talents, Mr Reitzle had little choice but to resign.

FRANCE by Samer Iskandar

Change has come swiftly

The pace and scale with which large companies have begun to embrace reforms has been unexpected

The French Socialist government's planned reform to encourage wider use of stock options was always going to be tricky, with the Communist party holding the balance of power in parliament.

What was less predictable, *was that the plan would face* opposition from the Medef, the employers' federation, whose members stand to gain most from the changes.

The government's proposals include lowering the taxation of profits from stock options – re-named "growth bonds" – and reducing, from five years to three, the period these instruments have to be held in order to avoid paying high rates of income tax on them.

In other words, the government is proposing to undo some of the restrictions introduced by the previous right-wing government of Alain Juppé, in what was seen as a gesture to defuse social unrest.

The main sticking point is a provision in the new proposals that would force directors and managers to disclose their pay packages. The Medef claims such a legal obligation is unnecessary, because "market forces" – peer pressure – would ultimately lead to the same result.

However, the recent debate on stock options has overshadowed the substantial progress achieved in the three years since the so-called Viénot report, the most authoritative French study on corporate governance, *was published.*

The report was commissioned by the French employers' federation CNPF (the precursor of the Medef), and compiled by a committee of experts led by Marc Viénot, a former chairman of Société Générale, the bank that recently kicked off rationalisation in the French banking industry with its €15bn agreed bid for Paribas.

Analysts say a vast majority of large companies have adopted the recommendations.

Of the 40 making up the CAC 40 index of blue chips listed on the Paris stock market, 87 per cent had embraced Mr Viénot's recommendations by the middle of last year, compared with 37 per cent three years earlier, according to a recent survey by the Paris arm of Korn/Ferry International, the executive search consultants.

"No one could have predicted progress would be so fast and far-reaching," the survey says. "The recommendations of the Viénot report, issued in 1995, have become the norm in 1998."

One of the Viénot report's main recommendations – limiting to five the number of board seats a director can hold – was widely heeded. By late last year, only four directors of CAC 40 companies were sitting on six boards.

The report also recommended unwinding cross-shareholdings and setting up board committees.

However, it stopped short of adopting the view, widely endorsed in the US and UK, that the board's main aim was to maximise shareholder value.

Instead, the committee said the goal of directors should be to serve the company at large, including shareholders, employees, creditors, customers and suppliers.

French companies were also quick to embrace specialised committees. Since 1995, 88 per cent of CAC 40 companies have set up audit committees and remunerations committees, a proportion only slightly lower than levels of more than 90 per cent at UK and US companies, according to Korn/Ferry.

Independent directors, who were nowhere to be seen three years ago, now account for almost 30 per cent of seats on French companies' boards.

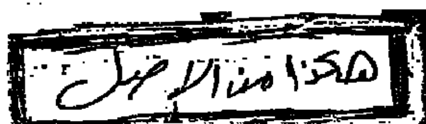
In contrast, public information on managers' pay remains opaque, in spite of noticeable progress being made on disclosing the remuneration of outside directors.

In 1995 and 1996, Jérôme Monod, then chairman of the water and construction group Lyonnaise des Eaux, was among the first managers to disclose details of his pay package.

But in 1997, the company took a backward step by reversing this policy after completing its merger with Suez Lyonnaise, a diversified utilities conglomerate.

Another shortcoming highlighted in the Korn/Ferry report is what it describes as incestuous boards, with 10 per cent of directors occupying 35 per cent of seats. Furthermore, two thirds of company chairmen are graduates of the same two schools – Polytechnique, the country's most prestigious engineering institute, and ENA, which educates those destined to become high ranking civil servants. The same graduates also comprise 44 per cent of directors.

French companies have *also proved reluctant to* appoint foreign directors. Although overseas investors hold 45 per cent of CAC 40 companies' capital, only 17 per cent of their directors are non-French.



UK by Jane Martinson

Head of steam driving change

Institutional investors are beginning to emulate their US counterparts in becoming increasingly active in seeking to influence the conduct of companies in which they are shareholders

Corporate governance in the UK – long criticised as a talking shop while the real work was done behind closed doors – took on a more public tone at the start of 1999.

Suddenly, institutional investors and non-executive directors – those lambasted guardians of governance – appeared to be taking their roles more seriously. Action was noticeable from the companies encouraged to enter takeover talks by shareholders to the highly publicised ousting of David Montgomery as chief executive of Mirror Group, the media company.

A small number of names were behind most of the changes. The first of these was the Focus fund set up by Hermes, which runs the UK's largest pension fund, and Lens, one of the pioneers of direct activism in the US. The fund was set up last October to force through changes at underperforming companies in order to realise value.

The fund is unique in closely allying a traditional UK institutional investor with a directly activist fund. Peter Butler, chief executive of the new fund, sees it as a development of his existing work as corporate focus director of Hermes. He has previously worked in conjunction with other corporate governance specialists to call for change at underperforming companies. The focus fund is simply a more direct way of achieving these ends.

Hermes, which largely tracks indices with assets of more than £30bn, has long been associated with taking an active stance on corporate governance. This is largely because it has a solid customer base and because of its investment style.

Two pension funds ultimately own Hermes, which means that it can avoid the potential conflicts of interest which bedevil some competitors.

Fund managers who rely on winning business from company pension funds find themselves in a difficult position when campaigning for corporate change at those companies. As an index-tracking manager, Hermes also cannot simply sell shares as a response to underperformance.

Although unusual in the UK, the focus fund does echo other activist funds which act as a catalyst for other larger institutions. One is the UK Active Value fund, which announced a $800m fund to target underperforming UK and continental European companies in January.

But perhaps the most notable name in the spurt of corporate activity was that of Phillips & Drew Fund Management. A bearish stance on the world's stock markets, combined with a value-based investment style, has led the group to a highly concentrated portfolio of shares in the UK.

It owns 10 per cent or more of 150 companies, according to CDA Spectrum, the data company. In 46 of these companies, it holds more than 20 per cent. Such stakes are hard to sell, particularly as many of the companies are the UK market's worst performers.

Jerzy Wielechowski, the senior fund manager appointed as PD's corporate governance director almost two years ago, says the group is taking a more direct approach on company performance and setting obvious benchmarks.

'The Said study found that investors very rarely stepped in to do anything about struggling investments'

The plight of P&D, the UK's third largest pension fund manager, highlights the way market dynamics affect corporate governance.

A study of 240 underperforming UK companies published last month by the Said Business School at Oxford University found that ownership in the UK was extremely concentrated, with just five shareholders controlling 33 per cent of the average company's shares.

P&D, while possibly the most extreme example, was not the only large investor with a highly concentrated portfolio. The research found that, on average, the largest shareholder controlled 15 per cent of a company. Such stakes are typically much harder to sell quickly and also lend shareholders a significant voice in the future of any given company.

There is also evidence to suggest that the UK's largest shareholders, such as P&D, have an overweight position in smaller companies, which have generally underperformed larger companies for some time now.

As these companies struggle to provide adequate investment returns, they become more difficult for institutions to sell at a profit and therefore the attractions of some kind of activism become greater.

Some analysts suggest that such relatively short-term considerations are behind the behaviour of investors. Indeed, the Said study found that investors very rarely stepped in to do anything about struggling investments.

The government has indicated that it wants to see signs of longer term change, particularly in the areas of share voting.

Fund managers have responded to this with a number of initiatives. One is the study into voting practices carried out by the National Association of Pension Funds. This group, chaired by Yve Newbold, a partner in Heidrick and Struggles, the executive recruitment company, is expected to try to explain why only about 40 per cent of pension funds register votes at annual meetings.

The study is expected to focus on physical difficulties, such as the inefficiency of the paper-based system. But it could also explain why UK investors, in contrast to their US counterparts, feel that a vote is an ineffective way of showing approval or disapproval.

Its recommendations, due next June, will form part of a report to the Department of Trade and Industry to tie in with its wide-ranging review of company law.

This review, launched at a conference hosted by Pirc, the corporate governance agency a year ago, will not be put into legislation until the next parliament after the year 2000.

But there have been some indications that the government may not be prepared to simply wait. The Treasury's pre-Budget report in November implicitly accused institutional investors of making UK plc less efficient.

It has also started a series of meetings designed to hear the view of institutional investors on a range of issues.

Such developments suggest that the issue of corporate governance in the UK is unlikely to become any quieter as we move into the millennium.

Yve Newbold of the National Association of Pension Funds: looking at dearth of voting at annual meetings

DIRECTORS' LIABILITY by Jim Kelly

An era of broader interests

The initial report of a high-level steering group in the UK has put the stakeholder concept at the heart of its analysis

The Victorians defined the duties of the company director and various rewrites of the Companies Act have brought their vision into the 20th century. A new model may be in place by the early years of the next millennium.

New Labour – besieged by lobby groups pressing for change in the corporate law sector – decided to deal with some urgent measures by putting fundamental reform in the hands of a high-level Company Law Review Steering Group.

Sir Stuart Hampson, chairman, delivering a 200-page initial report, admitted that the project was an "epic undertaking". Privately, some members are yet to be convinced the government will find time to enact the final recommendations.

But there is no doubt the group's conclusions will provide the framework for reform in the 21st century. Two issues will have an impact on directors. First, to what extent will their duties be extended or altered? Second, under what system of legal liability will those duties have to be met?

Surprisingly, the report went some way to answering the first question. At the heart of the committee's analysis is a recognition that companies should have a proper inclusive relationship with stakeholders that could include employees, customers, suppliers, local residents as well as shareholders.

This raises the question of whether the UK should follow the US in introducing so-called stakeholder statutes. These could, for example, give directors a legal duty to take the interests of the broader community into account when considering plant closures.

Another suggested option would be for directors to sign up to a non-statutory code of conduct committing them to take into account the interests of all stakeholders. But the report offers other ways for the stakeholder ideal to be achieved which may be less painful.

It outlines two types of stakeholder approach.

- The enlightened approach relies on progress under today's principles but with a need to change the law and broaden the information given by companies to the public.
- The pluralist approach sees progress through a regime in which directors are permitted – or required – to balance shareholder interests against those of others.

It is clear from the tone of the document that, if it can, the committee will seek an enlightened approach and will seek many ways to bring it about.

In government there is impatience with British business that, despite the fact that company law already lays broad duties on directors to meet the needs of future investors and employees, the "inclusive" approach is not a model.

The report seeks consultation based around a series of questions which include:

- Should the present law requiring directors to have regard to the interests of shareholders be clarified?
- If so, should that be statutory or not?
- As an alternative, should the duties of the director be more widely prescribed?
- Should such duties be enforceable?
- Should directors be given the power – or even obliged – to have a wider regard for social and ethical objectives?
- Should directors duties be changed from those current in a takeover or merger ? There has been criticism that the present rules restrict duties to serving current shareholders.
- Should distinctions be made between different types of company?

The law review is also expected to go on to look at the issues of directors' liability.

The government has signalled that it hopes the review will examine spreading the legal burden of damages when a business fails as part of its radical overhaul of company law. Auditors have been campaigning for a decade to win fundamental liability reform.

At one point, auditors hoped the Department of Trade and Industry would sanction reform of the Companies Act to remove the clause that prohibits them from limiting their legal liability by contract in the event of corporate failure.

Instead, a system of proportionality will be examined under which damages could be shared between directors, advisers and auditors in line with their degree of responsibility. Proportional liability is increasingly being accepted in the open market.

If the review finally recommends such action it would mark an end of the principle of joint and several liability under which all parties responsible for the damages can be liable for the whole amount claimed. As a result of such reforms, shareholders would lose out if negligent directors, or others, could not pay damages. The move could lead to demands for compulsory insurance for all directors.

Such a system would support the principle outlined by Margaret Beckett, former trade and industry secretary, of seeking the wider involvement of shareholders in the quality of directors appointed to the board.

CORPORATE GOVERNANCE ADVISORY BOARD by Richard Donkin

Powerful support for international guidelines

A group of top business leaders is aiming to make its influence felt over basic principles for corporate behaviour

Egon Zehnder International, the headhunting firm, could have been excused a moment of self congratulation yesterday after arranging what must have been one of the most high powered meetings between the heads of some of the largest multinational corporations and institutional investor groups.

The meetings at its London offices constituted the second stage in Egon Zehnder's plan to create an influential board of business leaders committed to effective corporate governance on an international scale.

The first stage was initiated a year ago when 20 international company heads from 16 countries were brought together in London for the inaugural meeting of the Global Corporate Governance Advisory Board.

The strength and international breadth of the board is implicit in its membership, including Marc Viénot, honorary chairman of Société Générale, Jürgen Schrempp, chairman of the board of management at DaimlerChrysler, Yoh Kurosawa, chairman of the Industrial Bank of Japan, Percy Barnevik, chairman of Investor AB, Cor Boonstra, president and chairman of Royal Philips Electronics and Ratan Tata, chairman of Tata Sons.

Supporting the board as its counsel is Ira Millstein, senior partner of Weil, Gotshal & Manges, and a respected authority on corporate governance.

If the board itself proved something of a coup for the headhunter, the second step in its overall mission to help transform nation-based corporate governance guidelines into international guidelines, has been to create the Egon Zehnder International Institutional Investors Advisory Group.

The second group comprises six of the most active representatives or advisers among the institutional investor community, including TIAA-CREF, the largest US pension fund, Calpers, the world's largest public pension fund, Lens, a US investment group, and from the UK Hermes Pensions Management and PIRC (Pensions Investment Research Consultants). The idea is that collaboration between the groups will help to focus concerns of investors among business leaders.

"We wanted to really bring people together on both sides of the table. We thought it was important to have shareholder representation when examining these fundamental issues," says Kenneth Taylor, the Chicago-based Egon Zehnder partner who suggested the group and brought it together. He stressed, however, that the board had no plans to draw up a code for adoption.

"There is a very well acknowledged relationship between good governance and good performance. We accept that one size will not fit all in corporate governance but I think there is a convergence of some of the basic principles of company organisation."

Investor groups seemed equally enthusiastic about the meetings. "It's clearly an interesting group to get together and I look forward to the opportunity to discuss these issues on an international basis with people who have experience in so many different markets," says Alastair Ross Goobey, chief executive of Hermes Pensions Management.

"Investors in both the US and the UK are going to have to get more involved in companies, rather than just selling their shares when they are unhappy."

Companies are also beginning to accept more active shareholders according to Mr Barnevik, who welcomed their increasing involvement in nominating directors.

"I think we have come a long way in Europe now to recognise the rights of shareholders. When I came into the German/Swiss corporate environment in the 1980s they looked at shareholders as if they were bond owners – you had to give them some money occasionally as dividend but you didn't see them as an owner," says Mr Barnevik.

The first meeting of the advisory board in 1998 identified common basic principles of corporate governance for all boards. These included:

- the board must be responsible to shareholders;
- the board must be independent of management;
- the roles of chairman and chief executive should be distinct positions;
- companies should meet certain core international standards to qualify for a stock exchange listing.

In addition to these fundamental principles, the group also identified a number of key issues and questions surrounding corporate governance, including:

- education of directors on the nature and scope of their job;
- how does a board appraise its performance?;
- should individual directors have their performance reviewed before reappointment?
- how should boards interact with investors and their advisers?
- should the chairman be a member of the management team?
- what should a global board look like?
- what role should shareholders play in company management and corporate governance?
- how can the board best contribute to good economic performance?

Mr Millstein says he hopes the boards will provide a channel for investor and corporate concerns over corporate governance. The debate is expected to broaden later this year when the OECD publishes international core principles establishing certain shareholder rights on the running of company boards.

"At Egon Zehnder we aim to get into a lot of the qualitative questions over corporate governance such as the social applications," says Mr Millstein. "Are institutions going to insist on maximising shareholder value to the exclusion of everything else? Another area is corporate ethics: what would shareholders like us to do? These are difficult issues and I would like to see whether or not they could lead to guidelines."

INVESTOR RELATIONS by Emiko Terazono

A pressure to explain

Companies are finding that they must be skilled communicators in an era of powerful institutional investors

It used to be accepted wisdom that as long as a business was run properly, then the share price would follow. Thus, spending time with investors and the media explaining strategy was seen as a cumbersome exercise.

However, in an environment where investors are more willing to use their power and corporate governance is given increasing emphasis, corporate presentation and communications skills are becoming more important than ever before.

If handled poorly, bad corporate results or a crisis can have substantial short-term, and in some cases long-term, effects. Links with institutional investors and the media are now of real concern for most companies, and in an environment where investors are seeking explanations for profits and corporate strategy, senior executives are spending more time dealing with the investment community.

As a consequence, the number of specialist investor relations consultancies which advise on presentation and communication strategy has grown rapidly. The period of growth for the investor relations industry in the UK was the 10 years since 1985. Big Bang in 1987 (which transformed the London financial and investment community) pushed corporate governance on to the UK investment community's agenda while the 1991 recession also provided impetus for change in investor relations.

According to a recent survey conducted by Investor Relations magazine, more than 60 per cent of UK companies polled used external investor relation agencies.

Consultants try and advise on how the market would react to management and investment decisions, and help corporate executives understand the market better. There are certain "fads" in the market, such as return on capital over the cost of capital, which companies need to realise and address. "It's difficult to keep in touch with sentiment, especially when the stock market is so fashion-led," says an investment relations adviser.

And while dealing with individual crises is crucial, the key to good communication is consistency, say analysts and investor relations advisers. Many companies are willing communicators when times are good, but tend to clam up once the tide turn against them.

Good communications invokes trust and investors will be willing to give companies the benefit of the doubt in a crisis if they trust the management, say advisers. "If companies communicate consistently and help the market's understanding by better disclosure, they would have a less volatile share price and hence lower the cost of capital," says one executive of an investor relations consultancy.

BP Amoco is often cited as an investor relations success story. Although until 1992 its poor communication skills bred hostility among investors, it has been a different story under the helm of Sir John Browne, and analysts and investors regard the company as one of the top communicators. "They are doing an excellent job. You'll always get information and some sort of story from them," says John Toalster, oil analyst at SG Securities.

On the other hand, Shell has a reputation within the investment community of being a company with poor communication skills. "This has led to more uncertainty over the company," says an investor relations adviser. "Although it is trying to change because of the recent appalling performance, it has long been arrogant," says an analyst.

Meanwhile, one of the new trends in the investor relations industry is the rapid growth of investor relations activity in continental Europe. The advent of the euro and prospects of a growing pan-European capital market has given rise to a focus on market driven capitalism and with it, shareholder values.

According to the IR magazine survey, of the European corporations polled, 34 per cent were planning to increase investor relations staff compared to a global average of 19 per cent. However, it has taken the UK more than 10 years for awareness to reach current levels.

Another recent trend with which UK companies will have to grapple is the consolidation of the fund management industry. This will mean that more shares will be concentrated in the hands of large institutional investors, who will have a greater say in management decisions.

"The challenge for companies is how to communicate with these global fund management houses and how to meet the demands of the big players," says Bob Cowell of Makinson Cowell, an investors relations consultancy.

The implications of this trend for small companies may be more severe. A recent report sponsored by the Department of Trade and Industry warned that many of the UK's smaller quoted companies could find it increasingly difficult to attract investors due to consolidation in the fund management industry, the rise of tracker funds and the emergence of pan-European capital markets.

This could in turn have negative effects on entrepreneurs running family businesses, who are hoping to bring their companies to the market, either by themselves or by venture capitalists looking for an exit.

"Small businesses need to establish and maintain good links with the City, otherwise they could well find their options for future funding restricted," says Mike Stevens, senior executive of sales and business development for Natwest Bank.

DAVOS FORUM by Tony Jackson

An attractive setting for a schmooze

This cunningly constructed event offers those fortunate enough to attend an astonishing variety of sessions

For those who do not attend it, the annual World Economic Forum at Davos is a slightly odd affair. From around the world, the great and good descend on this small Swiss ski resort: heads of state, chief executives, scientists and artists. What do they get up to? And should you join them?

The chance is not necessarily on offer. Only so many companies are admitted, and only so many representatives from each.

Suppose, though, you have the option. Whether you find it worth your time – six days – depends on your interests, industry sector and your capacity for schmoozing.

In some respects, Davos is unlike the average industry conference. Too often, these consist of a short break at an alluring location where official meetings are sparsely attended, and delegates are either playing golf or stitching up deals in hotel rooms, away from the media or the eyes of anti-trust authorities.

Davos is more cunningly constructed. Those who wish to ski will do so. Otherwise, the meetings have what might be called critical mass. On a given day, there will be up to 80 sessions, stretching from early morning, over lunch and dinner to midnight.

The practical value of some sessions, from an executive's point of view, might seem debatable. Take a sample from this year's offering a couple of months ago.

Spiritual Anchors for the New Millenium – speakers included the president of the European Buddhist Union and an Oxford professor of divinity. *Is Global Justice Possible?*, with the British rock musician Brian Eno and Mary Robinson, the UN commissioner for human rights. *Where Did I Leave My Keys? The Mysteries of Memory*, with a professor of neurology from the University of California.

There are two ways to look at this. On the one hand, many of the other sessions are severely practical. This year's included a panel discussion on mega-mergers by the heads of Deutsche Bank, BP Amoco and Novartis.

Another was on the outlook for the US economy, from Larry Summers, Robert Rubin's deputy at the US Treasury, and luminaries from Wall Street and academia such as Abby Cohen from Goldman Sachs and Alan Blinder from Princeton.

But do executives find the softer kind of sessions without value? I posed that question to the CEO of a large US engineering company.

In fact, he confided, he regarded Davos as a sabbatical. He avoided the sessions on business strategy and so forth: his rivals were going to them. He preferred those on science, the arts and society. With luck, this would give him a different insight: an edge over the others.

It would not do to be too starry-eyed about Davos. Much depends on the business sector you are in. In information technology, particularly, much care has been devoted in recent years to building up a worldwide image.

Thus, such luminaries as Bill Gates of Microsoft, Michael Dell of Dell Computer and Lew Platt of Hewlett Packard are regular visitors.

Suppose, on the other hand, you are a director of a paper company or a steel maker. There will be few sessions devoted to your more humdrum specialisations.

You will hear the finance directors from the Group of Seven industrialised nations give their views on the world economy. Heads of state such as Nelson Mandela of South Africa, Lee Kuan Yew of Singapore and Aleksander Kwasniewski of Poland will lecture you on the state of the world.

But however fascinating this may seem on first hearing, these are powerful people, whose words can sway markets and change events. They are not given to unguarded remarks.

But that is to leave out the schmoozing part. Davos takes part in one large, complex and bewildering building. As you walk through its corridors, you will bump into unexpected people: the head of Volkswagen or General Electric here, Al Gore or Newt Gingrich there.

On balance, it is worth a try. The town of Davos is hard to get to, and the hotels are unsatisfactory. But, even if you do not ski, one thing is certain: the Swiss Alps, at the end of January under heavy snow, are remarkably nice to look at.

TECHNOLOGY by Richard Susskind

Professions are likely to fly by wire

The internet offers the opportunity for radical change in the delivery of legal and other services

In the wired world what is the role for professional advisers such as lawyers, accountants and consultants? In an online society, dominated by e-commerce, tele-working and home shopping, in which everyone has access to the internet through the next generation of televisions, will the professions be immune from change?

One likely development is that professional guidance and expertise will be accessible on the internet, packaged in a way that is readily available and easily digestible for business and commerce. The guidance offered will be less focused than that delivered nowadays by traditional, one-to-one consultative, advisory service. But IT-based professional service will be vastly more useful than today's main alternative to customised advice: the booklets, texts and other sources found in libraries and book stores.

The guidance made available on the internet (more specifically, on the world wide web) will more closely resemble the kind of practical pointers that a professional might currently pass along to a friend or a family member (but not to a client): a short list of key points and reminders; maybe a few pieces of standard text for inclusion in a letter or report; and perhaps an indication of some relevant, common concerns.

From providing guidance for a sole trader who is bemused by mountains of possibly relevant regulation to briefing a chief executive on the legal, financial and management basics of some deal, the help on offer will tend to be punchy, practical, immediately usable and free of jargon.

Such distillation may be no substitute for the formal advice of specialists provided in the time-honoured, consultative fashion, but they should be an immeasurable improvement over having no access to professional help whatsoever, which is the regrettable state in which so many now find themselves.

IT-based guidance (we may call this professional e-guidance) will be less forbidding to obtain, more affordable, and brought to bear far more frequently than professional advice of today. No longer will professional insight be meted out occasionally on the basis of billing by the hour. Instead, it will become a low-cost commodity, distributed in high volumes across the internet.

Latent markets for professional guidance will be liberated by IT. These are the vast markets populated by those many millions who require specialist help today but are deterred from obtaining it because it is too costly, complex or inconvenient. And these latent markets are as needy in large corporations as they are in society generally – citizens and business concerns everywhere face substantial challenges and risks which they have no realistic hope of recognising and controlling without external help.

Today's source of help is the professional adviser. Tomorrow's will be professional e-guidance.

This is not science fiction. In fact, it is already happening, as is amply demonstrated by Clifford Chance's NextLaw system which guides users on compliance with data protection legislation across the world.

But this kind of e-guidance will not replace all service of today. Complex, high value and socially significant work will continue to require the judgment, experience and knowledge of skilled practitioners operating in the traditional, one-to-one, consultative manner. However, this conventional service (which today is all too often inefficiently prepared and delivered) will become streamlined and optimised through IT, using ever more powerful communications and information systems.

Traditional professional service will therefore continue to play a key role in society but it will come to be provided more quickly, at lower cost, with greater consistency of approach and to a higher quality. IT will play its part – but in automating rather than innovating.

That said, not all of today's work is genuinely so sophisticated. Clients have for long bemoaned the cost of apparently routine and repetitive professional work ("You must have done hundreds of these before"), and many have clamoured for precisely the injection of procedure that IT can and will bring. This will happen in countless areas of professional work, especially where the work loads are large, the problem types are recurrent and the tasks involved are highly procedural in nature.

Here, then, is what so many professionals understandably dread: the "disintermediation" of conventional advisers, whether internally when firms recognise they need less staff for the delivery of service that can be systematised or, worse still, when entire tasks are turned into prepackaged products available on the world wide web without the direct involvement of any professional or firm.

Worrying for those advisers who jealously guard the boundaries of their professions is that professional e-guidance will evolve quite rapidly to become multidisciplinary systems and services. For non-professionals, systems which specialise only in particular bodies of professional knowledge (just accounting, or just law, for example) will come to be seen as rather peculiar. Business users will prefer the e-guidance to be orientated towards the realities and the flow of the ventures with which they are involved rather than with the underpinning legal disciplines.

Thus, professional e-guidance systems will be multidisciplinary systems, covering areas such as accounting, finance, and business and management consulting.

While multi-disciplinary practices may seem a distant prospect, multi-disciplinary professional e-guidance is almost upon us. Perhaps the advent of these systems, if easy to use and sensibly priced, will bring an end to the common perception of all professions being, as George Bernard Shaw so memorably put it, "conspiracies against the laity".

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MANAGEMENT SUCCESSION by Peter Marsh

The reins in the right hands

Recognising that outside managers need to be brought in is one of the most difficult challenges facing family firms

When Hermann Kronseder started a tiny machinery company in war-ravaged Germany in 1951, he had no idea it would grow so big. Krones has expanded steadily in a range of products, to gain sales last year of DM1.8bn, most of this in bottling equipment for drinks factories, a field in which it is the world's biggest player.

However, the company - which is listed on the Frankfurt stock exchange although with a majority owned by Mr Kronseder's family - lurched into financial difficulties four years ago. It was forced to write off DM100m in losses, much of this related to mismanagement of its operations in South America.

Much angst was displayed within the company about what to do. In the event, Mr Kronseder, who is now 74, stood down as chairman, with his place being taken by his son, Volker, an engineer already working at Krones.

To bolster the senior management, the company also recruited as deputy chairman an executive from outside the industry - Hans-Jürgen Thaus, formerly chairman of Schneider Rundfunkwerke, a German technology-based multimedia company specialising in laser display technology.

The change at the top seems to have worked, with profits growing and stock-market analysts being more positive about the company than a few years ago. Volker Kronseder says: "We feel that we made a smooth transition [between the different generations] and at the same time improved the management structure," he says.

Such stories are not uncommon among many family-run businesses which have to go through the sometimes difficult procedure of finding someone new to run the company after the founder decides to retire. They are particularly frequent in the thousands of medium-sized companies in Germany, especially in engineering related industries, which have been an important driving force for the economy since the 1950s.

According to Hermann Simon, a Bonn-based management consultant who is an authority on the German Mittelstand (medium sized businesses), the problem of ensuring a pain-free changeover in companies such as this can often be the biggest issue deciding whether they will succeed or fail.

In Mr. Simon's view, businesses in this position will sometimes do better to find a new manager from outside the immediate family who is well qualified to run the business in the future, rather than to hand over in a routine way to a son or daughter.

While Krones has opted for a compromise, splitting the key management powers between an insider and outsider, INA, a large family-owned maker of bearings and automotive parts and based near Nuremberg, has recently opted for a complete newcomer to take the company into the 21st century. INA, which was founded in 1946 by Wilhelm and Georg Schaeffler, two brothers, was run by the two of them, and then, when Wilhelm died, by Georg on his own until his death in 1996.

It was believed by many in the company that Georg's son, also called Georg, would take over the running of the company following an interregnum during which Lorenz Raith, a long-time INA employee, took on the chief executive's job.

However, in the past few months, Georg has decided instead to pursue a legal career, so forcing the company to go outside the family in its choice of its most senior executive. The job was filled in November by Jürgen Geissinger, a 39-year-old engineer who had previously worked at ITT Industries, the US conglomerate, and Heidelberger Druckmaschinen, a well-regarded German company which is the world's biggest maker of printing systems.

Sometimes the family in charge of the company lets go of the reins to an outsider as a matter of long-term strategy.

That was the case with Putzmeister, the world's biggest maker of machines for pumping concrete on building sites. This was started in 1959 by Karl Schlect, who ran the company until recently, when he stepped down as chief executive to hand over to a non-family member, Hartmut Benckert, a long- serving Putzmeister employee.

At the same time, Mr Schlect placed the shares of the company in a charitable foundation, with a view to selling roughly a quarter of the stake to outside investors in a public offering around 2001. "For the first time we have a family-free management board," says Mr. Schlect, who is 66 and continues at the company as chairman of its supervisory board, a non-executive function.

He believes the company has a better chance of making the right management decisions if it is run by people who have earned the right to be at the top, rather than being there because they happen to be members of his family. "There must be no special privileges [to family members]," he says.

Such a view is probably a minority one among the many ageing entrepreneurs in charge of German businesses, most of whom instinctively hope their sons (or very occasionally daughters) will carry on their work. At Prominent, a Heidelberg-based pump maker, Viktor Dulger, the founder and owner, is still effectively running the company at the age of 63.

However, he has laid the foundation for a smooth handover by making his two sons - Reiner and Andreas - joint managing directors with a view to taking over when he decides to step down completely from the DM280m-a-year turnover business.

At Trumpf, another privately owned German machinery business, which is the world's biggest maker of laser cutting systems, Berthold Leibinger, the chief executive and majority owner, has prepared a game plan for the future which contains only the most minor variation on Mr. Dulger's strategy.

Although in his late 60s, Mr Leibinger has dropped few hints about when he might call it a day. However, it is widely assumed that when he decides to quit he will pass over the top job to Mathias Kamüller, Trumpf's director in charge of production – who happens to be his son-in-law.

INA, German family-owned bearings maker, took on outsider, Jürgen Geissinger, a former ITT executive, as chief executive

CASE STUDY
PSI GLOBAL

A question over the longer term

For a family company selling out to a larger rival may the the realistic option

"It can be quite fraught at times," says Sue Hunter of the challenges of running a company of which she is managing director and where her four sons are all in key positions.

PSI Global, which makes specialist air filters for compressors and pumps, was set up by Mrs Hunter and her former husband, George Hunter, in Durham, North East England, in 1976. Later, the two divorced – leaving Mrs Hunter to run the £3m a year turnover business, with her four sons all joining the company in recent years.

Mrs Hunter and her sons – who are aged between 25 and 33 – between them own roughly two-thirds of the company, with the rest owned by an outside shareholder in the form of the Foreign & Colonial Investment Group, which took its stake six years ago.

Now, Mrs Hunter – whose company employs 80 people and exports nearly 80 per cent of production – is beginning to ponder the question of management succession, and the company's long term future.

"I almost certainly will not be wanting to stay in this job for more than the next few years," says Mrs Hunter – whose husband had previously set up a bigger filter maker called Domnick Hunter in 1963 which is also based in the North East and has gone on to become a publicly quoted business.

According to Mrs Hunter, one of her four sons would "probably" take over the top job in the group were she to stand down. The most likely person would be one of the three sons who are executive directors of the company – Jon, who is the oldest and is in charge of manufacturing, Alex, who is technical director, and Daniel in charge of sales. The youngest son, David, is the production engineer at the group.

The three director sons plus Mrs Hunter together comprise four out of the company's five executive directors – with the group having one more non-executive. "The family representation sometimes seems a bit top heavy for a company of our size," said Mrs Hunter. "Sometimes discussions between us get a bit hairy but most of the time we get on well. I try not to boss them around too much."

However, a still bigger issue than the management succession crops up over the question of where the company is going long term. Sales have recently stuck at around the £3m mark, partly due to problems over exporting given the high pound, and the company has maintained a solid profits record, partly by devoting much more attention to training employees and improving their skills than is normal for a relatively small company.

However, Mrs Hunter thinks that the future for PSI as a family company may not be that long lasting. Given the tendency for companies such as hers around the world to form part of bigger, more international groups, she thinks it likely before too long PSI may follow the route of other similar businesses and be taken over by a larger enterprise.

Peter Marsh

Sue Hunter and (l to r) sons Alex, David and Jon: the future as a family company uncertain North News & Pictures

CASE STUDY
NEW YORK INVESTMENT FUND

Private networks with the public good at heart

Capitalism is taking on a new role in masterminding initiatives to combat urban blight in some of America's worst affected cities

In the 1980s, Henry Kravis came to stand for a new spirit in American capitalism: the raw financial power wielded by his leveraged buy-out firm, Kohlberg Kravis Roberts, posed a direct challenge to deeply entrenched interests in American boardrooms.

The power of money also lies behind his more recent attempt to galvanise private sector community initiatives in his home city. Kravis's New York Investment Fund is one of a new breed of private sector funds that have been springing up in US cities, charged with stimulating economic growth and revival of down-at-heel neighbourhoods, rather than making a profit.

This time, though, the leverage has come not from amassing mountains of debt, but from using the power of the Kravis personal network to draw other members of New York's financial and business elite into his community initiatives.

Business leaders in other US cities may be doing things somewhat differently, but similar funds have been springing up elsewhere, too. Together, they represent a distinct shift in the way that American corporate executives and financiers in some of the country's bigger cities apply their efforts to support their home towns.

One recent sign of this shift: a meeting in New York that drew delegations of business leaders from Cincinatti, Cleveland, Detroit and Pittsburg – all cities that have suffered severe cases of urban blight. The first of its kind, the meeting represented an attempt to spread ideas about how to get the maximum impact from the limited cash, and time, available.

Community involvement may, at heart, be a local affair, but it no longer pays to think small, says Kathryn Wilde, who runs the New York fund.

"The aim is not just to fix up a low-income community, but to bring it into the mainstream of the global economy," she says. "You can't do that with mom-and-pop stores or one-off neighbourhood businesses – you have to find ways to create connections."

Al Senger, who oversees the TRW Foundation, a non-profit fund set up by the Cleveland-based car-parts maker, says "In Europe, there's far more reliance on government" to provide solutions to local social problems. "Here, government is just one of the many entities" that get involved.

Downtown Cleveland is proof of this. The Midwestern city has come a long way in the past 15 years, since a small group of business executives decided that city government was not up to the task of pulling Cleveland out of its downward spiral. That led to a series of investment funds to back investments in low-income housing and a series of landmark developments, including new sports facilities, a hotel and a marina.

Real estate has been at the heart of most private-sector community investment projects across the US for the past 20 years, says Ms Wilde. Now, the aim has switched to creating jobs and a sustainable economic base for inner-city areas that have missed out on the US economic expansion.

In New York, that has meant mobilising Henry Kravis's personal network. Money, in the shape of the $79m investment fund, may oil the wheels of this effort, but it is not the main force at work. Rather, the exercise relies on a classic New York blend: the desire to network with powerful people, mixed with the urge to do good works while developing social prestige and useful business contacts.

Most of these projects represent efforts to create a broad impact: a home healthcare agency in the depressed South Bronx that will train 1,000 workers, for instance, or an attempt to create a consortium to represent Brooklyn's food industry. "We are increasingly looking at projects where we can provide a business model that can go to [large] scale," says Ms Wilde. "The micro-enterprise only goes so far."

Richard Waters

Henry Kravis (left, with actor Michael Douglas at a fund raising event), has turned to raising funds for community projects AP

SOCIAL RESPONSIBILITY by Alan Pike

A community of interests

Pressure is growing for companies in Europe and elsewhere to think in terms of social partnership

In the UK, where the core language of industrial relations tends to emphasise confrontation rather than collaboration, employers and trade unions seldom refer to each other as social partners.

But they unashamedly adopted the European Commission's favoured description for the two sides of industry when, last month, new pension rights and other changes in conditions for local government employees were announced.

Local government unions and employers' organisations are putting great effort into building social partnership. Their motivation to work together has been strengthened by mounting political and financial pressures on public authorities to consider contracting out services to the private sector.

For the unions, there are obvious staff interests to protect when work is outsourced; but equally big issues face private contractors. By running services and forming joint venture companies with local authorities, the private sector is drawn into debates about public policy priorities and accepts overtly social responsibilities.

Partnerships with public authorities and unions make sense when working in such a politically sensitive environment. Even the most conventionally-minded director or shareholder would have little problem with managers spending hours in meetings with councillors and community representatives – and spend substantial amounts of their companies' money on community causes.

Although this is less easy to explain to hardened sceptics among directors and shareholders, many large companies have come to regard community involvement as a necessary, mainstream business activity.

The UK leads Europe in this broader form of business social responsibility. Just as the continental term social partners has been slow to enter UK usage, business social responsibility – in common use in the UK and US to describe the range of economic, educational, environmental, artistic and other community activities to which companies devote money and non-financial resources – is an expression with no precise equivalent in French, German or Italian.

But interest in the concept is growing in continental European companies, and the UK is beginning to export its expertise.

At its most simple, the case for businesses taking an interest in the community is that no company exists outside it. The community is where customers are, where employees live, and where reputations are enhanced or damaged.

"Poor communities make poor markets" is a favourite slogan of advocates of corporate community involvement. Economically deprived communities lack spending power. Communities where crime rates are high expose business premises to increased risk of theft and vandalism.

Low educational attainment in the local community creates a bad labour market. And, in the global community, gaining a reputation for environmental insensitivity or dubious employment practices can damage a multinational's image throughout the world.

This spring will see the completion of "A New Vision for Business", a committee of inquiry into ways of promoting corporate social responsibility and positive business values while enhancing competitiveness.

Led by eight companies – British Telecommunications, Tesco, Unipart, National Westminster, Body Shop, Diageo, BP Amoco and Wessex Water – the inquiry has spanned issues that have social implications including consumer and employee relations, the environment and ethics, as well as the specific subject of community involvement. When the inquiry's findings are published shortly, the most important target audience will be policy makers in the UK and elsewhere in Europe.

At a time when governments are keen to see the private sector engaging with social issues, the inquiry will try to pinpoint those public policies that are most likely to encourage wealth creators to respond.

Both in their home markets and overseas, European companies have built up an impressive catalogue of community achievements – from KPMG, the accountancy group, mentoring headteachers to help them gain the management expertise required to run state schools, to BMW, the motor group, using its South African dealership to promote a scheme encouraging entrepreneurship and economic independence among black women. There is a current trend towards relating community programmes to companies' particular areas of business expertise.

Business in the Community, the charity that led the expansion of business social responsibility in the UK, has begun sharing its experience with continental European companies on an aspect where the UK is well in the lead – employee volunteering.

While the starting point for an organised business social responsibility programme is usually commitment from chief executives, the quickest route to expanding it is to involve large numbers of employees in practical community work.

Cecile, a network to co-ordinate information on employee volunteering across the EU, was set up in 1996 with initial support from Marks and Spencer, Diageo and Levi Strauss, and has now won funding from the European Commission.

A recent BITC conference on UK experiences of employee volunteering, held at the British Embassy in Paris, attracted representatives of more than 100 French companies. David Halley, of BITC, is now working on plans for a similar event in Spain at the Madrid embassy.

"Attitudes towards employee volunteering, in common with other forms of business social responsibility, certainly vary across Europe," he says. "In the Scandinavian countries, for instance, there is still a strong sense that social problems are government's job. But, all over Europe, there is an increasing recognition that there are solid business reasons for private sector involvement."

Along with social partners and business social responsibility, another set of "social" terms that were once the exclusive property of academics and policy makers has entered the usage of business leaders. These are social inclusion, social exclusion and social cohesion.

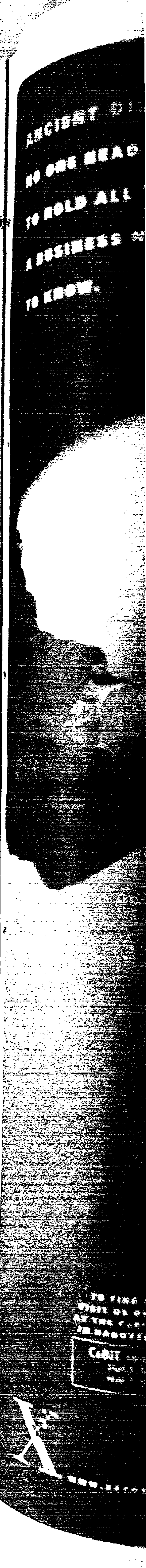
The European Business Network for Social Cohesion, a business-led organisation supported by leading companies and business associations, has been formed to help the private sector play its part in preventing social exclusion and contribute to a "sustainable economy and a more just society".

Social exclusion? A more just society? This is certainly the sort of language likely to have those sceptical directors and shareholders snorting that profit-driven companies should stop behaving as though they were charities or political parties. But, reply exponents of the "poor communities make poor markets" thesis, it is precisely because companies are profit-driven that they cannot ignore social issues.

David Grayson, a director of BITC and one of the UK's most respected voices on business social responsibility, has just completed a series of briefing sessions for board members of the new English regional development agencies that become operational next month. He used the sessions to drive home a message which, he argues, is equally applicable to all bodies throughout Europe that are responsible for regional economic development.

"In the new century, the most competitive regions will be those that are the most cohesive. The social issues have to be addressed as part of overall competitiveness strategy, not added on as an afterthought. Social cohesion is becoming a key component of economic success and that is something the private sector, as much as governments, must take into account."

Tesco director, Tim Mason, joins in the fun during a visit organised by the charity, Business in the Community, to Bromley Hall School for children with special needs, in Hackney, London



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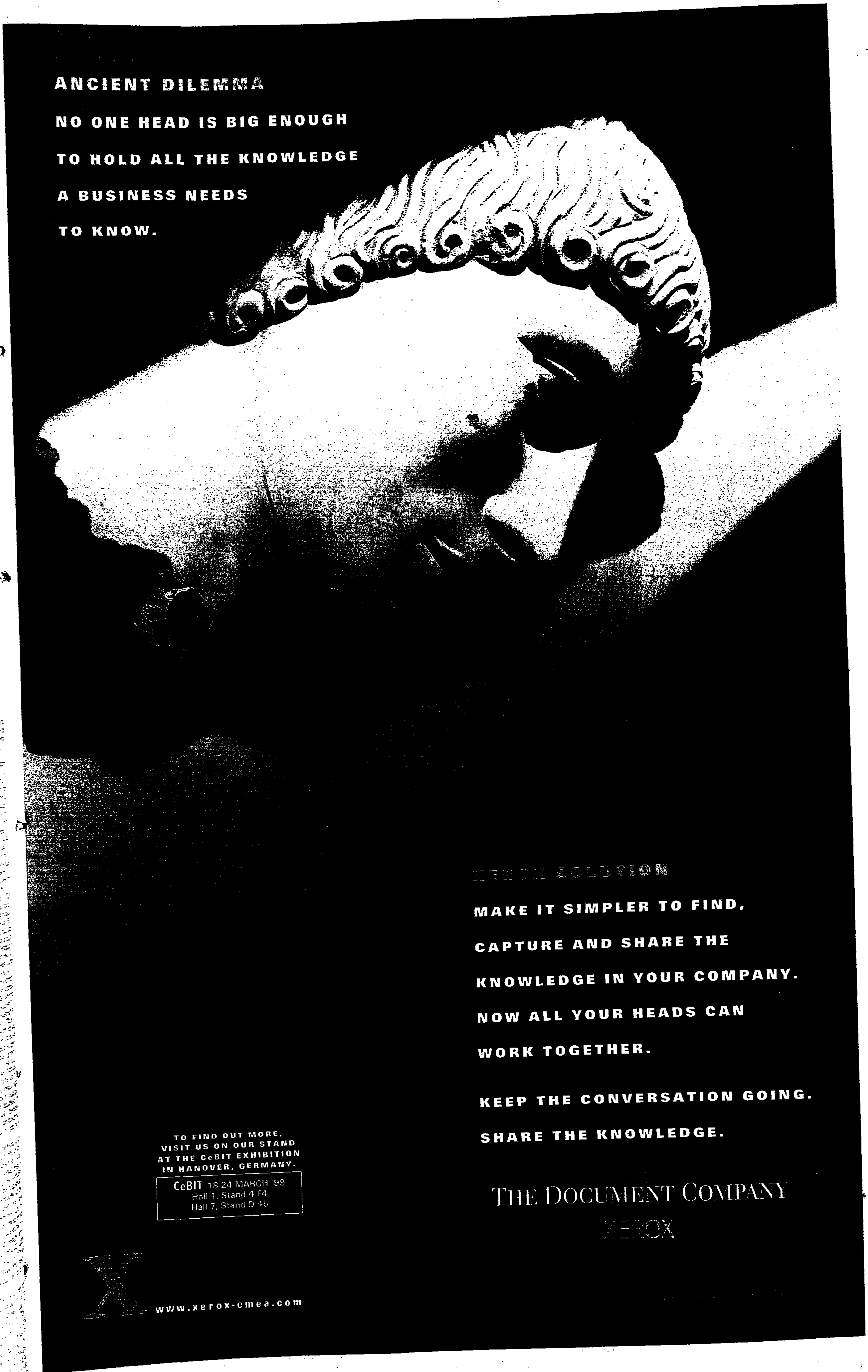


MANAGING IN A DOWNTURN by Tony Jackson

The kindest cut – a shared attack on costs

Overheads are an obvious target when recession starts to bite, but they must be carefully targeted if lasting damage is not to result

Since the debut of FT Director four months ago, recession has continued to roll around the world, involving more and more *economies on its way*. In that first issue, we looked at strategic ways of making the most of a recession (FT Director: "Upside of a downturn", November 20 1998).

But there is a more immediate aspect to managing in a downturn. Costs must be *cut, perhaps sharply*. How can that be done most intelligently, with least damage to the organisation?

The first point is perhaps less obvious than it looks. It is necessary to understand where your costs are. Do they come in raw materials, or rental, or wages? And why are they being incurred in the first place?

David Pettifer, a consul*tant with PriceWaterhouse-*Coopers, puts it this way. Suppose you are a utility, and one of the costs you identify is the settling of dis*putes and complaints over* customers' bills.

One way to cut those costs would be to reduce the number of people handling queries. But before doing that, it plainly makes sense to cut down the number of queries in the first place.

As Mr Pettifer says, the trick is to view cost-cutting in a strategic rather than knee-jerk way. "If you ask General Motors," he says, "they will tell you that much of their cost-cutting in the 1970s made them a smaller company with the same problems."

All organisations, of course, aim to keep their costs low all the time. But the reality is that costs creep up when times are good.

Some of this is a matter of inattention. But some of the extra costs consist of the kind of developmental, entrepreneurial activities on which the company's future might ultimately depend. It may be necessary to cut the second kind: but only after the first kind have been taken care of.

Again, the range of products and services offered by your company tends to proliferate in an upturn. In a downturn, it is essential to *work out which are making* the real money, and cut out the long tail of those which are not.

It may be, of course, that the downturn proves so severe – as in parts of Asia – that the issue becomes one of survival. In that case, Mr Pettifer says, there are two big mistakes to avoid.

First, he says, companies are often unclear about which *of their processes are* essential. How important is it to protect your research and development, your brands, your product development?

Second, they fail to understand how various cost measures work over time. Process re-engineering, for example, is unlikely to have much effect within 12 *months. When it comes to* emergency cost-cutting, the trick is to pick the right tools.

The number of tools is rising all the time. Take, for instance, office space. The UK company Regus, which provides temporary offices on a three-month lease, claims to be opening a new office centre every three days, in 40 countries.

As the company says in its sales pitch, this could allow you to convert a large fixed asset into a short-term one. For instance, if a conventional office lease expires in a recession, renting might give you a breathing space to determine whether the market in question is going to recover.

Or take a slightly more exotic outfit, the US-based Active International. This claims to take excess inventory or unwanted assets off your hands at full book value, even if their market value has collapsed.

As described by Tim *Glover*, the company's European managing director, this involves a complex form of barter. The company hunts out and collects redundant *assets, from excess airline* seats and TV air time to printing and packaging.

Suppose you have excess inventory of baked beans. The company will give you part cash, part trade credits which can be exchanged for those other goods or services. By juggling its various *assets, the company aims to* find a home for all of them at what is, in effect, full price.

The company's scope is somewhat limited. Around 80 per cent of its $800m revenues consist of advertising time or space, reflecting the fact that it was set up 15 years ago by two New York advertising executives. But the idea is an intriguing one; and with the advent of the internet, it seems likely to *find imitators*.

In the end, though, there is no substitute for analysis. Not all organisations are affected by recession in the same way. The effect on demand will vary, and with it the necessity to reduce *excess capacity*.

But there are also the kind of overheads which can only be controlled in a recession. That is, it takes a downturn to make them politically acceptable within the organisation.

One more example from Mr Pettifer. The natural tendency in cost-cutting, he says, is to look at the operational side. But head office needs also to look at itself.

"There are *still some huge* head offices around the globe," he says. "If you pin companies down as to why they need 2,000 people, some of them are not very clear on the answer."

This brings us to the final point: the need for fairness. If a company slashes numbers in business A because of losses in business B, while leaving business B intact, the morale in A will slump accordingly.

And if you stop providing free coffee to the rank and file while maintaining expensive lunches for the executive suite, people will put two and two together. Recessions are a painful business for everyone. The more the pain is seen to be shared, the less damaging it will prove.

REFINANCING by Emiko Terazono

Healthier balance sheets lessen the demand

While lower interest rates offer opportunities to reduce the cost of debt, companies are in fact better prepared for a downturn this time round

Restructuring corporate liabilities has become an increasing concern for companies as the economic climate in Europe has become more difficult.

Manufacturers, especially small and medium sized businesses, have been feeling the effects of the economic cycle, with their problems exacerbated by the strong pound.

Financing for some of the larger companies has also been difficult due to restricted access to capital markets in the latter half of last year, a result of the emerging markets crisis. Spreads on bonds widened considerably, making sales of paper into the secondary market very difficult.

But, while falling interest rates offer companies opportunities to refinance their balance sheets at lower rates and also allow weaker companies a better chance of new funding, bankers say that demand for refinancing and new funding is lower compared to previous economic cycles.

One reason is that interest rates have fallen faster than anybody had initially expected, and companies are waiting for a further decline before entering negotiations with their bankers.

"A lot of customers expect interest rates to go down further and are holding off for at least another few months," says Mike Stevens of Natwest Bank's sales and development division.

The main reason, however, seems to be that companies are better prepared for the downturn compared to the previous economic slowdowns in the early 1990s and 1980s.

Businesses are more aware of cost and cash flow management, while the level of gearing has also been significantly lower due to an increasing cautiousness over taking on liabilities which usually have to be met from trading profits.

Richard Kersley, economist at Credit Suisse First Boston, says that, overall, balance sheets of UK companies seem much healthier than in previous cycles. In the early 1990s, a third of profits were consumed by interest rate charges.

This has now fallen to about 20 to 25 per cent. "It isn't the level of distress seen in the early 1990s," says Mr Kersley.

After a deluge of criticism over the behaviour in the early 1990s, banks also claim to have learned their lesson. They note that unless customers they lend to prosper, neither will they, and are now stressing their willingness to work with small business customers in restructuring and managing their liabilities. "The key to our approach is consistency of support to our customers throughout the economic cycle," says Mr Stevens at Natwest.

Businesses now seem to have a better understanding of finances than in the early 1990s. Better credit analysis, thanks to increased sophistication in credit assessment systems, has also allowed banks to make credit judgments on behalf of customers.

Financial institutions, meanwhile, are eager to *stress the importance of long* term relationships with customers and have moved towards identifying problems at an early stage and *evaluating options for bal*ance sheet restructuring.

In order to lower costs and increase stability in cash flow, companies have one or a combination of the following refinancing options:

- reducing monthly repayments by lengthening the duration of a loan;
- introduction of debt finance such as factoring or invoice discounting;
- switching from a fixed rate loan to a variable rate loan, where the cost is linked to the prevailing base rate or Libor (London inter-bank offered rate). This may be appropriate if a fixed rate loan was taken out some years ago when rates were higher. However, companies need to note that there are costs associated with closing out a loan early, which will need to be weighed against the benefits of the new loan taken out.
- locking in lower interest rates when there is no guarantee that prevailing rates will remain low in the medium term, by switching into a fixed rate loan to take advantage of the decline in interest rates.
- debt for equity swaps;
- capital repayment holidays, where the bank agrees to suspend, for a given period, repayments on the capital sum outstanding, with interest only being covered in the meantime.

'Businesses are more aware of cost and cash flow management'

Of all these, factoring and invoice discounting have become increasingly important to small businesses as a source *of maintaining cash* flow.

Factors and discounters purchase a debt from a business, usually for immediate cash, and will become responsible for the collection *of the debt repayments*. In the UK, most factoring is carried out by subsidiaries of leading banks.

Factoring finance is based on a company's invoices, and a factor will typically provide, within 24 hours, 80 to 85 per cent of the value of the invoices to customers, *less a service charge*, usually 1 per cent to 3 per cent.

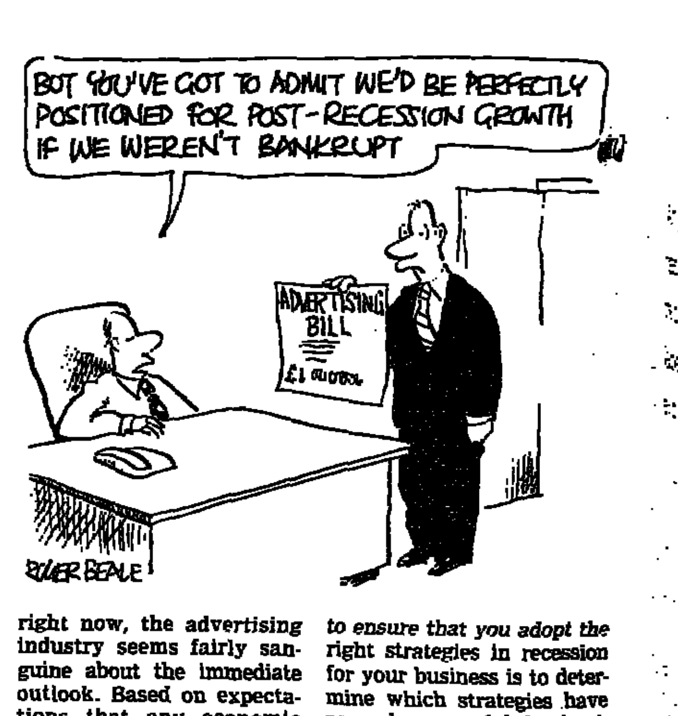
Last year, funds provided by factors and discounters increased by 12 per cent to £56.7bn, a slight slowing from an 18 per cent increase in 1997. Domestic factoring rose 7 per cent, invoice discounting gained 14 per cent, while international factoring and discounting rose 16 per cent.

Although a slowdown in investment could affect growth of the factoring market, factoring and invoice *discounting are expected to* continue to increase their attractiveness as a method of debt collection, and it is reckoned that the market will expand to £110.8bn by 2002.

MARKETING by Richard Tomkins

If the return is right, keep spending

A cutback in advertising may be the right strategy in a downturn. But studies show that the better performing companies in the long term sustain their expenditure



When times are hard, the advertising budget is an obvious target for cuts. The sums are large, the savings are quick – and when good times return, the tap can be quickly turned on again before any serious damage is done.

But there is an opposing argument, too. Advertising is cheaper in a recession, so it can be a good time to *invest in brand-building*. And if other companies cut their advertising budgets, your likely increase in market share will leave you much better positioned for recovery.

Numerous studies by the marketing services industry have found, perhaps predict*ably, that the best-perform*ing companies in the long term are those that sustain their advertising during a downturn.

But *the notion was* also supported by an independent study recently when PIMS Europe, the international corporate benchmarking consultancy, released the results of its research into *which business strategies* succeeded in a recession.

PIMS took its database of 3,500 businesses world-wide and looked at 1,000 companies in markets that had experienced recessions followed by recoveries.

The companies that did best in terms of profitability, PIMS found, were those that adopted "bold" strategies *during a recession*, investing in marketing and innovation even though times were hard.

Companies that increased their *spending on marketing* during a recession were slightly less profitable while the recession lasted, PIMS found. But once it finished, their profits increased much faster than those of companies that kept spending steady, while profits of companies that cut their spending in the recession actually fell once recovery began.

The trouble with studies such as these is that, for the *most part, the conclusions* seem obvious. Naturally, every company would like to maintain its advertising during a recession: but in the *real world, that option is not* always open.

"There are some companies out there that can afford to take a long-term *strategic view, and they, by* and large, will be the number one and number two players in the market," says David Forster, a media analyst in Salomon Smith Barney's London offices.

"But there will always be weaker companies for whom it isn't a choice. In a recession, some companies go bust. There are some compa*nies that will be looking* everywhere to save money aggressively, and costs will get cut."

As Mr Forster points out, an important factor in all of this is how bad people expect the recession to be. If you think you are going into a relatively shallow downturn, you may feel you can afford to keep the advertis*ing at a higher level than if* you are in a deep recession, laying off staff, closing offices and cutting dividend payments.

This is one reason why, right now, the advertising industry seems fairly sanguine about the immediate outlook. Based on expectations that any economic downturn will be short and relatively light, the industry is expecting global advertising revenues to grow almost as rapidly this year as they did in 1998.

Even so, different companies may need to adopt dif*ferent strategies. "I think the* way most managers look at this is as a form of business investment, and as with any *form of investment*, you have to consider what return you are going to get, both in the short term and in the long term," Mr Forster says.

'The advertising industry seems sanguine about the immediate outlook'

"For example, if you're a do-it-yourself retailer and *people aren't buying homes*, which is one of the major stimuli to people walking in to buy pots of paint and wallpaper, then the return on marketing aggressively to these people is much diminished because there are just fewer of them."

Tony Hillier, a director of PIMS, agrees. "The best way *to ensure that you adopt the* right strategies in recession for your business is to determine which strategies have proved successful for businesses *analogous to your* own," he says.

Martin Sorrell, chief executive of WPP, the world's second biggest advertising group, also *advocates reap*praisal, but in a slightly different sense. He says companies should not maintain their spending indiscriminately, but take a fresh look at which form of marketing delivers the best value for money.

For example, Mr Sorrell says, *the cost of network* television advertising has been rising alarmingly, because at a time when media audiences are fragmenting, other media cannot deliver the same size of audience for *the same price*.

Mr Sorrell says television's low "cost per thousand" may appear good value, but can prove to be the opposite if your message is delivered to the wrong people or produces low conversion.

"The real answer is effective cost per thousand – and that will come more into play with new media development," *Mr Sorrell says*. Meanwhile, many companies are allocating a higher proportion of their marketing budget to other media – pub*lic relations, sales promo*tion, identity design and packaging – and using them in a more selective way.

LATE PAYMENTS by Emiko Terazono

Reluctant to take advantage of the law

Small companies may now have the option to charge interest on debts, but few are likely to do so

Prompt payment from large customers has always been a problem for small suppliers, lacking the clout to collect debts without facing the threat of a breakdown in their business relationships.

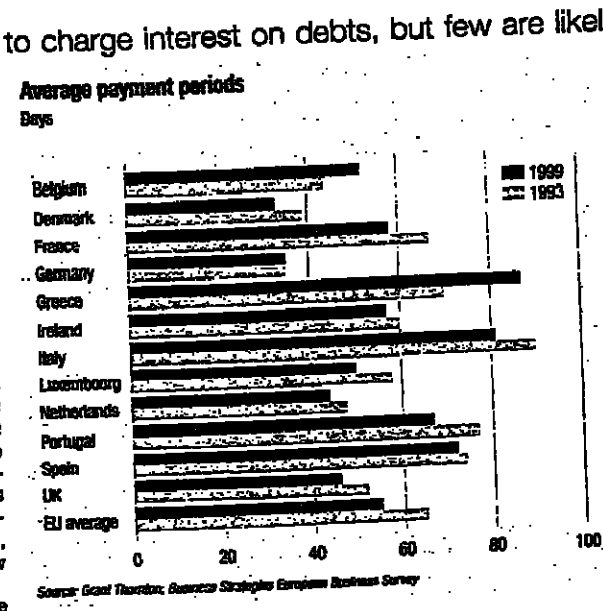
UK companies have traditionally been among the worst when it came to debt payments. Compared to Scandinavia and Germany, there has been no legislation on collecting debts, and the country's businesses have had one of the worst payment habits in Europe. Natwest Bank estimates that at any one time £20bn worth of trade debts are owed to small and medium companies, costing them more than £3m per day in additional interest burden.

In an effort to tackle this problem, the government last November introduced a law to protect businesses threatened by late payment. The Late Payment of Commercial Debts Act gives companies the right to claim interest on late payments, and aims to improve the business culture in the UK. It will be phased in over a four year period, but doubts remain over the effectiveness of the new legislation.

"The government has at least acknowledged that it is a problem, which is positive," says James McFadzean, managing director of a MHR, a small human resources company. Although his company has yet to face debt collecting problems, most of his friends running small businesses are sceptical about the effectiveness of the new law.

For most small companies, turning to the new law is the last resort, especially if the large customer is someone they want to build a business relationship with. "It's highly unlikely that a company is going to use you, once you turn to the new law," he says.

The legislation will give businesses the right to charge interest – at base rate plus 8 per cent – if invoices sent to business customers remain unpaid for longer than 30 calendar days. Small business suppliers with outstanding debts from large businesses of more than 50 employees and the public sector will be the first to be able to use this law. Until October 2000, it is only large businesses which will be liable to pay the statutory interest, but from November 2000, it will apply to all.



While there may be a possibility for a strong customer to try and force a small business to exclude the terms of the new legislation out of the contract, the contract could be set aside by the courts.

But unless the sum of debt is substantial or the delay in payment particularly long, a company is unlikely to turn to legislation just for the interest. And although awareness of the new law seems to be relatively high only a few companies were willing to do anything about it.

"So far, there has been no effect whatsoever. It's certainly not high on the agenda for most businesses," says Andrew Godfrey, head of growth and development services at accountants Grant Thornton International.

The case of Rentokil Initial seemed to highlight the attitudes of companies towards the new act. Small companies complained that they had received letters from the cleaning group informing them that it would pay interest at only 1 per cent above the base rate for unpaid bills after 65 days. Rentokil said it would not do business with companies which did not accept the terms, but after protests from small business groups and criticism from the media, it withdrew its initial conditions.

Mr McFadzean of MHR says that in order to avoid late payment by clients, maintaining good relationships with companies is the absolute key. He also finds that, compared to medium-sized businesses, the relatively larger companies realise the late payment problem for small businesses.

Many banks are advocating the use of "just in time" payments using Direct Credit, a widely used electronic funds transfer service which allows businesses to make payments directly into their suppliers' accounts.

Banks are also advising companies to use the legislation as an opportunity to review existing terms and conditions. Mr McFadzean says that most small suppliers do not have official contracts with their customers, and he is now using the introduction of the law to bring in fixed contracts with a terms of payment agreement.

In Europe, there are considerable variations in attitudes to late payments, according to Grant Thornton. Compared to the UK's average of 46 days, the average number of days it takes an EU company to pay an invoice is 55. Finnish and Norwegians come out on the top with less than 30, with southern European countries at the bottom of the list.

Mr Godfrey says it has more to do with culture than legislation. "In Scandinavia, it simply is not acceptable to pay late. People just don't do it," he says.

Companies in Spain, Portugal and Italy take an average of 87 days to pay their invoices, but in many cases, 120 days is regarded as normal business procedure.

K chancellor Gordon Brown: no avoidance

AX by Jonathan Schwarz

Proposal a cause for concern

move to counter avoidance announced last week's Budget could undermine ng-standing arrangements in the UK

ny directors will have en dismayed by both the e and content of the Budget announcement of anges "to counter avoidance in the area of personal vice provision". The and Revenue press release tes that there has "for e time been general conrn about the hiring of indiduals through their own rvice company so they can ploit the fiscal advantages fered by a corporate structure".

The aim of the Inland Revenue is to ensure that people in "disguised employment" pay the same tax and National Insurance as someone employed directly.

The long-standing distinction between employment and independent personal service income is accentuated by the tax system, which imposes entirely different tax regimes on each. Additional differences arise out of diverging National Insurance regimes.

The range of possible tax outcomes is increased when services are provided by partnerships or companies. Thus, a wide range of options is available to those who provide their services to structure their arrangements in such a way as to be advantageous to them, whether for tax or other reasons.

'Any director who has gone down this road is now labelled as a tax avoider'

In many cases, simple employment may be the least attractive tax-wise. Payroll taxes in the form of National Insurance contributions and PAYE mean that employees do not even get to see that part of their income that is paid over to the government.

The rules relating to the deduction of employment-related expenses are extremely narrow and rigid compared to those providing services independently. The changes are even more dramatic when the service activity is conducted through a company.

For example, a personal service company would only pay tax at 21 per cent on earnings of up to £350,000. An employed individual earning the same amount would pay 40 per cent on most of that amount. Employers would bear National Insurance contributions at 10 per cent, making employment an extremely expensive option.

As a result, many directors and employees seek to establish themselves as self-employed and to form companies in order to provide their services. Others do so because of the real differences in legal rights and obligations between the parties. Such arrangements have been used for very many years on an entirely valid and proper basis.

Any director or executive who has gone down this road is now labelled as a tax avoider and by implication not paying a fair share of the tax burden.

Despite this pejorative spin, the reality is quite different. Directors and executives have simply exercised choices that the tax system offers them.

In a recent leading case on tax avoidance (IRC v Willoughby), the House of Lords accepted the Inland Revenue's definition of tax avoidance as where a taxpayer reduces his liability to tax without incurring the economic consequences that parliament intended to be suffered by any taxpayer qualifying for such a reduction in his tax liability.

It also accepted the Inland Revenue's argument that the hallmark of tax mitigation, on the other hand, was that a taxpayer takes advantage of a fiscally attractive option afforded to him by the tax legislation and genuinely suffers the economic consequences that parliament intended to be suffered by those taking advantage of the option.

The House of Lords rejected as absurd the description of tax avoidance as the acceptance of an offer of freedom from tax which parliament has deliberately made.

In its press release, the Inland Revenue emphasises that those structuring their arrangements in this way do indeed suffer the economic consequences of the choices that they make. This may be in terms of loss of protection under employment law, or loss of entitlement to sick pay or maternity leave. Those adopting these approaches may sacrifice entitlement to notice or redundancy pay, or claims to unfair dismissal.

Some Budget changes offer further tax incentives for personal services to be delivered through companies. The new 10 per cent starting rate of corporation tax on profits up to £10,000 with marginal relief on profits up to £50,000 will tempt many to explore incorporation.

The press release indicates that the proposed changes are only aimed at engagements with "essential characteristics of employment". This, the Inland Revenue says, should only affect those cases where these characteristics are disguised through the use of an intermediary such as a service company or partnership. It does not intend to redefine the boundary between employment and self-employment.

Many will wonder why the Inland Revenue feels the need to legislate against disguised arrangements. The law has historically protected it against sham transactions. Thus, where a taxpayer creates a facade of reality, quite different from the disguised transaction, the proper consideration of the reality of the situation will be given.

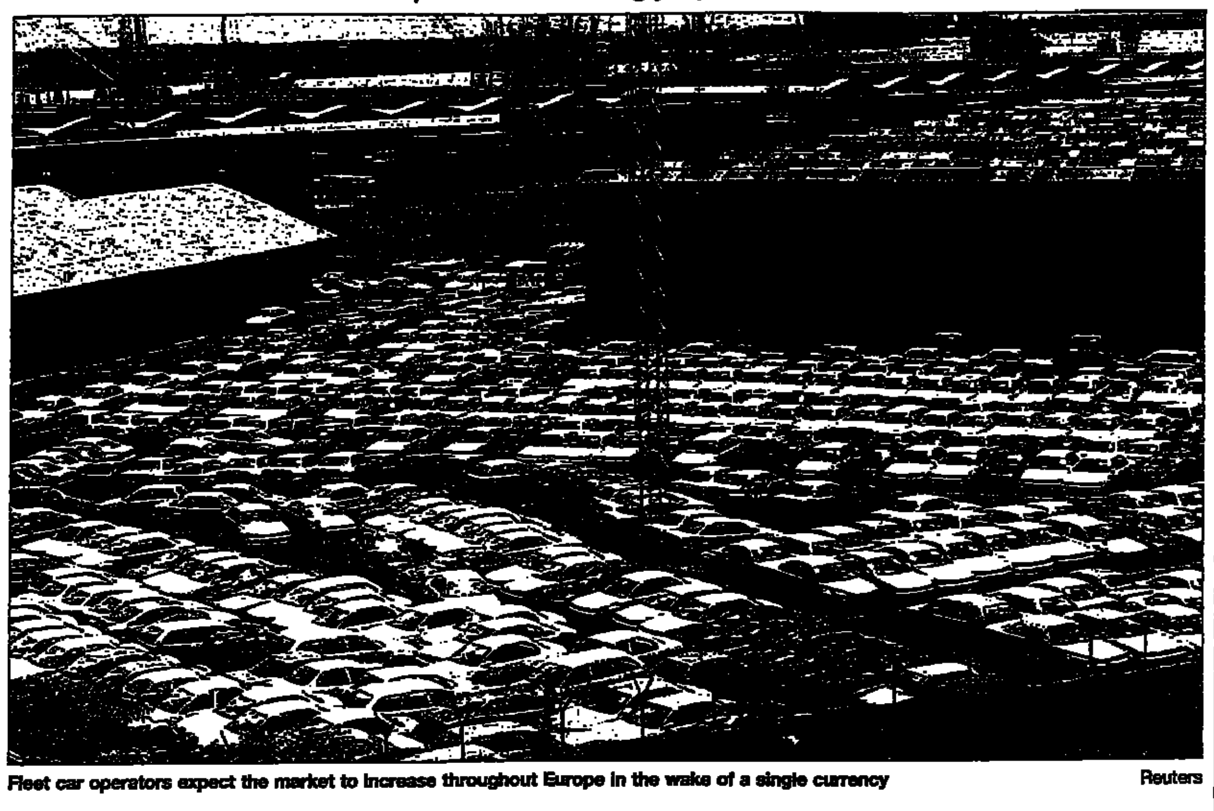
The government proposes to consult interested parties on this and has expressed concern in "minimising any impact of these changes on ordinary business not involved in avoidance". Perhaps during the consultation process, the real path to ensuring that taxpayers pay their fair share will emerge. A fair tax system should tax those working in similar circumstances in a similar way.

Jonathan Schwarz is a tax barrister at 3 Temple Gardens Tax Chambers, London

VEHICLE FLEET MANAGEMENT by John Griffiths

Complex drive into Europe

The specialist expects to come into its own as companies increasingly operate across national boundaries



Fleet car operators expect the market to increase throughout Europe in the wake of a single currency Reuters

The company car, once a mainly British phenomenon born as a means of circumventing a government pay freeze in the 1970s, is becoming endemic across Europe.

There is a long way to go before most EU countries catch up with the UK, where cars acquired or leased with business cash account for almost 70 per cent of total new car sales. But the trend has been clear for a decade as corporate need for mobility has risen, public transport declined and – not least – the "perk" car has become ever more useful as a tool for retaining the loyalty of valued managers and executives.

Increasingly during the 1990s, a new and important dimension has been arising. A growing number of companies are operating across Europe's national boundaries. Partly, this is a result of the emergence of the EU single market and the euro; and partly because of the global wave of mergers and acquisitions which is continuing to consolidate a broad swathe of industry and commerce.

A knock-on effect for such companies is that fleet ownership or management is no longer a question of dealing with one new and used car market, and one framework of taxation and other relevant legislation.

Despite increasing EU integration, within the several dozen states of western and central Europe such legislation varies widely. So do car prices – a function of tax regimes which can impose a total tax burden of more than 200 per cent in Denmark on a new car purchase, and as little as 15 per cent in the UK.

The introduction of the euro is already making prices more transparent and, industry analysts insist, will reduce the up to 40 per cent price disparities still evident today. But for as long as national tax regimes vary there are still likely to be variations at the pre-tax level and incentives for cross-border trade in cars.

Fleet disposal also becomes a matter of great complexity.

This is not a problem in the UK which, thanks to a tax regime where dealers are charged VAT only on the profit margin of each car, has long had a sophisticated infrastructure of auction houses and used car retail outlets.

But the widespread Continental European practice of charging VAT on the full used car sales price – only now being remodelled by EU rules along UK lines – has prevented such infrastructures developing in much of the region. Disposal by private or commission-only commercial sales thus can be the stuff of which fleet managers' nightmares are made.

Not least, dealing with the company car in terms of assessing its benefit to the driver for income tax purposes is itself more than a little taxing. The UK taxes company motorists on their business, rather than private, mileage. Germany calculates it as 1 per cent of the car's purchase price, plus a monetary amount arrived at by multiplying the number of kilometres between home and workplace by 180 days of work, and then by DM1.04. Italy, even more imaginatively, divides so-called non-working days by 365 and multiplies that by the total cost of the car.

Not surprisingly, given a list of such complexity, specialist fleet management, contract hire and leasing companies have been gearing themselves up to offer their services on a pan-European basis – touting themselves as "one-stop shops" for companies which should be concentrating on running core businesses, not their fleets.

According to Peter Cooke, director of the Centre for Automotive Management at Henley Management College, the number of companies operating truly pan-European fleets – in use across five countries or more – is still relatively low at around 500, although growth will be substantial as the effects of consolidation make themselves more strongly felt.

Mr Cooke stresses, too, the complexities facing a fleet operator seeking to "go it alone".

"Naturally, many organisations dream of a 'pan-European' fleet, supported by a single 'pan-European (car) provision policy' and controlled by a 'pan-European fleet office' – akin to a motoring single currency.

"But the drive to such a utopian structure – with its dream of cost reductions – is strewn with pitfalls," he says.

The cost of a central in-house fleet management office would be likely to be high. "Harmonising" the previously widely-varying fleets of each national subsidiary would be likely to generate resentment among staff whose cars faced a levelling down. The better purchase terms available on a "bulk buy" deal still might not cover the increased overhead, Mr Cooke warns.

Against this background, it is not surprising that the specialist fleet management and leasing sector is falling over itself to capitalise on the uncertainties.

"Risks associated with the ownership of depreciating assets such as vehicles are best carried by those whose core competencies include the management of such risks," insists Daniel Farrar, chief executive of the European arm of GE Capital, the fleets and leasing subsidiary of General Electric of the US, which handles almost 1m vehicles for clients globally.

Unisys, the computer services group with 33,000 employees spread internationally, is among companies which have found such arguments persuasive. It has signed a £10m a year deal under which GE Capital's Avis Fleet Services division is managing Unisys' 2,800-strong fleet throughout Europe. The fleet is now managed through a combination of GE-controlled local operation centres in each country, with a central management team co-ordinated through GE's Brussels headquarters.

"Personnel previously tied up on largely non-productive fleet administration have been redeployed to much more beneficial effect and we are reducing costs," says Eric Knight, Unisys' director of outsourcing.

FLEET PACKAGES by John Griffiths

Opportunity hinges on clear objectives

Arrangements for pan-European fleets should offer substantial savings to international companies

Leading fleet management and leasing companies expect some of their best growth opportunities to come from multinationals outsourcing the operation of their pan-European fleets. But even they accept that fleet owners need to have a clear understanding of what they are trying to achieve, and precisely what benefits are expected, in opting for a pan-European fleet policy.

The basics of the packages being developed by the specialist fleet industry are already familiar to companies with bases in the UK, where the company car market is the largest, longest-established and most sophisticated in Europe. They range from rudimentary cost controls for fleets owned by the operating company – monitoring and managing service and repair bills – to full contract hire with all risks borne by the lessor.

Duly adapted to take account of countries' differing tax and legislative regimes, they should offer substantial savings compared with fleets bought and run locally by national subsidiaries.

Pitfalls do exist however – not least upsetting long-established custom and practice at subsidiaries – and Phillippe Op de Beeck, managing director of fleet finance group Axus, suggests a step-by-step checklist to make the process painless.

A company should first define the objective of the exercise; whether the target is cost saving, harmonised pay and benefits, or both.

A specific team, taking into account the importance of each country, should be set up to manage the change process. Only then should potential suppliers be approached, restricted to those with their own presence in all the company's operating countries.

The chosen supplier and client company should then examine fleet competition between manufacturers and negotiate on a European level to achieve the biggest cost savings.

"Rationalising the fleet content from the average of around 30 manufacturers to about seven normally allows you to satisfy local [company drivers] preferences while providing the required level of leverage," says Mr Op de Beeck. A similar process can be repeated with fuel suppliers.

Thereafter, cost controls, administrative efficiency and driver satisfaction should be regularly reviewed.

Similar advice comes from Richard Netherclift, vice-president of PHH Europe, another large management and leasing group. "There is no off-the-shelf, one size fits all package," he warns. "Treatment of the company car in each country has to be approached sensitively and with respect for local customs and operational parameters."

> **'The structure of the company car market in France and Germany emphasises the difficulties'**

The structure of the company car market in France and Germany emphasises the difficulties.

France has only 3m business car drivers and it is common for employees to provide their own cars for business use. Germany has 5m such drivers, but the "perk" cars which are such a feature of UK remuneration packages are not widespread. Cars go mainly to essential users and senior managers, not line managers. To restructure a UK subsidiary's fleet on German lines, clearly, would be to spark revolt.

Complicating matters further, unlike the UK, contract hire and leasing in Germany is largely under the control of the vehicle makers themselves, not independent specialists.

However, if any one trend is predictable, say analysts, it is that the flexibility and sophistication of UK-developed fleet and finance packages and policies, acquired over many years of sometimes swiftly-changing government attitudes to the company car, will be increasingly exported to Continental Europe.

Such attributes are to be expected in a country where both the "essential user" and "perk" car have been an integral part of the corporate scene for two decades, and where business cars account for up to 70 per cent of all new car sales.

With taxation on the benefit of the UK company car having risen sharply in the past few years, that flexibility is being tested in a new form – the emergence of a cash alternative to the company car, with all that would seem to imply for the fleet management and leasing sector.

Six years ago, only about 6 per cent of companies offered such an alternative. But, according to the latest annual Monks Partnership study of UK companies' car policies, almost three-quarters of businesses – more than 80 per cent in the case of companies with turnovers of more than £500m – now offer allowances.

The take-up rate is also rising, particularly among directors, and in some companies have reached as high as two in three. The reasons are not hard to find: most directors' cars are perks and their mileage tends to be low, thus attracting the highest level of personal taxation.

But the specialist fleet sector remains as fast on its feet as ever. It is moving quickly to mop up for itself, through personal leasing schemes, the cash of directors and employees keen to escape the company car tax burden, but fearful of entering the car market jungle on their own after possibly years of having all buying, selling, maintenance and paperwork worries taken care of by the fleet manager.

The overall result is a continuing trend for companies away from fleet ownership. Last year, according to Monks' figures, only 31 per cent of companies bought their own cars, down from 33 per cent a year earlier. Including personal leasing, companies using contract hire jumped to 48 per cent from 37 per cent the previous year.

LAW by Nigel Page

The merger route that avoids nasty surprises

Liaising with the European Commission at the outset of a deal can enhance the chance of obtaining its approval

The boom in European mergers and acquisitions –cross-border deals topped £100bn (€148bn) in 1998, according to Acquisitions Monthly – has been good news for competition lawyers. Moreover, changes to EC merger regulation, introduced by the Council of Ministers in March last year in an attempt to streamline the merger review process, have developed a role for competition lawyers as strategic advisers.

For acquirers and joint venturers, knowing when and how to file notification of an intended consolidation is critically important. Typically, deals find their way to Brussels if they exceed certain turnover thresholds (both globally and inside the EU), and once notified to the Commission's merger task force (part of DG IV), they become subject to a tightly-controlled process.

The first stage, phase I, lasts for four weeks, during which DG IV investigates the proposed merger and its effect on the market. Until last year's amendments were introduced, failing to secure Commission approval at this stage meant that the deal proceeded to phase II, a four-month process, entailing huge amounts of disclosure, effort, time and cost.

In certain instances, this can be enough to derail an intended merger altogether – and, at best, it represents a serious drain on management resources. From March last year, however, when deals hit problems during phase I, parties have been offered the chance to commit to making divestments which dilute the concentration and smooth the way to Commission approval.

In practice, this means that phase I is automatically extended by an additional two weeks, if a divestiture commitment is tabled by the end of the third week. This allows DG IV time to seek views from the market and establish the reactions of competitors and customers to the commitment which the parties have proposed.

It can be a matter of enormous strategic importance for the party to decide whether it should give a phase I undertaking, or whether it should allow the matter to move into phase II. For example, under UK takeover law, a phase II investigation will usually mean a bid will automatically lapse.

John Davies, a competition law expert and the co-managing partner of Freshfields Deringer Brussels, explains: "Parties are confronted with a tough decision, often against the clock. Do they opt for a quick fix divestiture at phase I, even if it means selling off a potentially profitable aspect of the business? Or do they allow the matter to move into phase II, with all the delay that entails, in the hope that they will be able to negotiate the Commission into approving a less radical fix?"

This may be a tough call, but it has provided companies with a welcome escape route – since March last year, there have been 12 deals involving phase I undertakings – including Exxon-Shell, Thyssen-Krupp, BP-Amoco, Akzo Nobel-Courtaulds and Xeneca-Astra. Nearly all would otherwise have gone into phase II and some might have then foundered.

Mr Davies, whose firm has advised on five of the 12 mergers involving phase I undertakings to date, says: "The original merger regulation only provided for undertakings on divestments to be made at the end of phase II and consequently an *ad hoc* practice had developed whereby parties could, in limited circumstances, agree to do something at the end of phase I, but there was no established, legally-enforceable procedure in place. Therefore, the parties would often be locked into a full-blown, five-month procedure with only a very limited chance to extricate themselves earlier. Nobody benefited from this."

> **'Parties are confronted with a tough decision, often against the clock'**

The £68bn BP-Amoco merger was completed against a demanding timetable and, as Juan Rodriguez, EC competition counsel at BP Amoco plc, says: "I'm a strong supporter of the recent amendments to the merger regulation law – the new process worked very effectively for us in a situation where we really didn't have too much time to spare.

"Late on in the approval process, third party comment elevated the sensitivity surrounding a particular chemical product. This could potentially have pushed us into phase II. The phase I commitment mechanism was extremely helpful and we worked to meet the timetable, entering into a disposal agreement before the Commission finished its phase I assessment. This resulted in the divestiture of a chemical business to Royal Parkhoed, one of Europe's largest chemicals distributors," says Mr Rodriguez.

Where companies give a phase I undertaking, without actually disposing, the Commission requires that the identified divestiture be held apart and run separately, typically by an investment bank appointed as trustee (as in the Kimberley Clark-Scott merger).

Concerns have been raised that the effect of the amendments, and the understandable desire for certainty among businesses, puts the Commission in an unfairly strong position. To ensure that companies are not forced to divest "at any price" simply to get the deal through, they should concentrate on forward planning, says Dimitri Giotakos, a case handler with the Commission's merger task force.

"Sufficient preparation in advance of the filing may help notifying parties to formulate their tactics," he says. "They must establish whether they will be able to provide a straightforward remedy, or whether they would prefer an in-depth phase II investigation to be carried out," says Mr Giotakos.

BP Amoco's Mr Rodriguez supports this view. "The key to avoiding nasty surprises is to spend as much time as possible with the Commission at the informal stage, so that potential problems and, if necessary, remedial measures such as divestitures, can be identified."

Nigel Page is a partner in White Page, a London editorial agency

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WORKING TIME REGULATIONS by Robert Taylor

Implementation fraught with difficulties

The UK government has allowed companies and workers a flexible approach, but this may be short-lived

The European Union-inspired working time regulations that were supposed to have come into force last October are among one of the most complicated pieces of employment law ever faced by UK employers. It is not only the Department of Trade and Industry which is finding it difficult to explain clearly what they involve.

Over the coming months a high level of litigation from employees can be expected and this in turn is bound to increase the need for precision by employers in drawing up agreements covering working time which can no longer be left to voluntary determination. In contrast, similar difficulties have not been experienced in other countries in the European Union where the working time directive has come into force, mainly because this is an area where they already have national legislation laying down legally enforceable restrictions. In the UK, with some exceptions such as children and colliers, working time has not been covered by statutory requirements. For the most part, employers and their employees have been quite free to make their own voluntary arrangements.

The current legal troubles in the UK have been compounded by the way in which the working time regulations were first introduced. When they were adopted in 1993 by EU ministers in a legally-binding directive, the then UK government challenged their legitimacy before the European court by arguing that working time was not a health and safety provision under the EU treaties and should therefore not be subject to regulation at EU level.

The UK lost that case in November 1996 and was ordered by the court to implement the directive. But in the intervening period nothing was done in the UK to prepare for the introduction of the working time regulations.

The present UK government set out its own proposals on how it intended to transpose the working time directive into domestic law in a consultation document published last April.

In this, it argued that, while the directive should be welcomed as an "important addition to health and safety protections for workers", "maximum flexibility in implementation" was needed as long as this was not done at the expense of "fair minimum standards and the proper protection of workers from risks of excess working time leading to stress, fatigue and risks to health and safety".

It was also made clear at that time that action on working time should be seen as part of a much wider government employment strategy designed to create a more flexible labour market underpinned by minimum standards. A more "family friendly" approach to workplace issues was to be ensured, while at the same time safeguarding a sensible balance between effective protection for employees and minimising the regulatory burdens on business.

'A family friendly approach to working place issues was to be ensured'

In a recent High Court case in the UK pit deputies employed by RJB Mining won their legal right not to work more than a stipulated 48 hours a week determined over a 17-week reference period if they did not wish to do so. The case indicates that companies are going to need special sensitivity in ensuring they do not face the risk of costly and time-consuming litigation over working time when they draw up agreements.

The basic standards set out in the working time regulations are clear enough. No worker – except for a number of specified excluded groups – should be compelled to work more than a maximum of 48 hours a week. All workers have a legal right to three weeks paid annual leave rising to four weeks this November subject to a 13-week qualifying period.

In addition, the regulations lay down specific requirements for night workers, who must not work more than eight in every 24-hour period, and who must have health assessments as well as specified rest breaks.

But the generalised outline of the regulations' provisions belie the difficulties of implementing them in practice.

The UK government is keen to ensure that its interpretation of the working time directive enables companies to exercise as much flexibility as possible in its implementation without violating its intentions. The main way this has been done is to allow employers and employees to exercise opt-outs from the working hour limitations. Three methods have been laid down on how this can be achieved.

First, an individual worker can reach agreement in writing with their employer to work more than the 48 hours a week stipulated.

Second, a workforce agreement can be negotiated between an employer and non-unionised employees to allow for a wider opt-out from the working hours provision.

Third, a collective agreement can be negotiated between an employer and trade unions which does the same.

Theoretically, such a provision should go a long way to reassure employers and workers that they will not be compelled to limit working time if they are genuinely willing to agree on an opt-out. But it is not going to enable companies to avoid maintaining fuller records on time-keeping. Moreover, a worker will be able to give notice of up to three months that they are withdrawing from such an agreement.

A recent publication from Industrial Relations Services and Warwick University Industrial Relations Research Unit argues that the working time regulations should provide an opportunity for companies to manage their working time more efficiently, encourage moves to flexible rostering and annual-hours arrangements and ensure a much more productive use of labour. The systematic use of overtime, for example, has generally been regarded as an inefficient way of work organisation. Its eventual eradication seems more likely under the current regulations.

Moreover, the present uncertainties and confusion may not last for long. The European Commission is keen to tighten up the working time regulations, bringing many excluded groups within the scope of its provisions and making it more difficult for any large-scale opt-out. The UK's minimalist approach is likely therefore to be only a temporary stage towards a much more regulated system in line with common practice in the rest of western Europe.

The New Law on Working Time, from IRS, 18-20 Highbury Place, London N5 1P, £100.

BOARDROOM PAY by Richard Donkin

Incentive for UK to follow suit

Emulating the US trend, an increasing proportion of directors' remuneration packages is being linked to company performance

The question of whether the directors of public companies are fairly rewarded for their efforts continues to exercise the minds of investors and pay specialists, particularly in the wake of what seem like increasingly hefty pay deals for US executives recruited to run UK companies.

The £10m incentive-loaded package put together to lure Michael O'Neill from Bank of America to Barclays as its new chief executive is the latest deal in what seems to be developing as a trend.

But Mr O'Neil's package also illustrates the difficulties for companies attempting to match pay conditions in different jurisdictions. Increasing proportions of reward packages in the US are being linked to company performance and this development is becoming more prominent in the UK.

The move towards incentive pay in the UK is illustrated in statistics provided by Hay Management Consultants. Base pay would have comprised almost two-thirds of a typical reward package of a main board director in a large publicly-quoted company in 1978. Some 10 per cent of the package would be an annual bonus and about a quarter would be made up of other benefits.

By 1998, the base pay element had dropped to just over half – 53 per cent – of the total package, with annual bonus contributing 10 per cent, other benefits adding 16 per cent and long term incentive pay – non-existent 20 years earlier – making up another 16 per cent.

Although UK executive pay in big companies is edging in the direction of US models, national differences in the way that pay is regulated by investor bodies and tax authorities would make it difficult for UK companies to match their incentives with those in the US.

'American executives expect their pay to be packed with incentives'

A complication for share incentives in the UK is an Association of British Insurers' guideline that executive share option packages should not be worth more than four times base salary. It also specifies a maximum dilution limit of 10 per cent of issued capital for all share option schemes. This means companies must often look to other incentive plans to make a package attractive enough for an American.

In contrast, in the US, although any equity dilution for long-term incentive and share option schemes needs the approval of shareholders, there are no maximum dilution limits; neither are there any rules on maximum award levels of share options. Instead, companies are likely to favour incentive pay because base pay that tops $1m is not tax deductible for a company as a corporate expense unless it is performance-related.

In spite of these differences, the pressures on many large UK companies to become "global" means that the recruitment searches for their top executives are often taking place on both sides of the Atlantic. American executives, however, expect their pay to be packed with incentives.

Moira Conoley, a partner and pay specialist at PricewaterhouseCoopers, points to the increasing influence of US-style rewards on executive pay in the UK. Pay comparisons are often used by UK companies when attempting to set boardroom pay rates. "There are concerns that it could lead to a ratcheting up of packages in the UK," she says.

She also raises fears about

Michael O'Neill: big incentive package to join Barclays — Reuters

what some see as the increasing social divisiveness of increasing executive pay, particularly when the pay of other employees may not be moving in the same direction or by anything approaching the same proportion as increases in the pay of those at the top.

Some pay consultants are doubtful that UK government proposals to put remuneration policies to the vote at annual meetings will put much of a break on pay escalation at the top of many large companies. Shareholders are only too ready to rubber stamp the pay of an individual who is hailed as something of a saviour.

A more considered assessment could be undertaken by remuneration committees, responsible for monitoring boardroom pay, but their powers of discretion and independence remain unclear in many companies. They do not tend to appoint their advisers and, according to Ms Conoley, they do not always have the opportunity to get their hands on data that might, for example, show the relationship between top and bottom pay in a company. "Their role is to look at pay in the boardroom, not to look outside," she says.

The Cadbury committee on corporate governance established the role of remuneration committees on the basis that "executive directors should play no part in decisions on their own remuneration". But their responsibilities were one of the areas of divergence between the respective Greenbury and Hampel reports on corporate governance. Greenbury recommended that the committee should determine the policy on boardroom pay whereas Hampel said the committee should make recommendations to the board rather than take decisions on the board's behalf.

Ms Conoley believes the remuneration committee should be engaging its own advisers and setting the terms of reference for the data it uses but some consultants believe such independence is unnecessary and could fracture boardroom harmony. "In the UK, a board of directors is a unitary board and the remuneration committee is a properly constituted committee of the board. I am very opposed to working for one element of the board," says Eric Duffelen, a principal in the UK arm of Towers Perrin, pay consultants.

But there does appear to be consensus that the remuneration committee should have access to relevant pay data. There may also be an argument that the human resource director should have some greater involvement in executive pay decisions. Duncan Brown, also a principal at Towers Perrin, says many HR directors are not involved in executive pay issues. In practice, he says, it tends to be the company secretary or the finance director who controls the use of pay information for boardroom positions.

He remains sceptical, however, over the idea of the remuneration committee acting as a brake on senior pay awards. "The one thing I have never heard a remuneration committee ask is how much is enough," he says.

PEOPLE by Richard Donkin

Outsourcing puts brakes on redundancy

An increasing variety of staffing options lessens the need for compulsory cuts

It would be far too optimistic to suggest that the days of indiscriminate redundancies are a thing of the past. Jobs are still being shed in their thousands, often as a result of a merger between two mature businesses.

However, changes in staffing arrangements have led to new ways of tackling the fluctuating demands for labour, creating more flexibility for human resource directors when considering staffing options.

The increase in outsourcing certain support activities led many companies in the past 10 or 15 years to hive off the more peripheral of their staffing responsibilities to outside contractors. Cleaning, catering, security and maintenance are often carried out by outsourcing operators today, relieving companies of the worry about staffing implications.

Other areas which experience sharp changes in demand for staff have led to the increasing use of agencies. In IT departments, for example, many companies have brought in extra agency staff to ensure their computer systems will operate smoothly beyond 2000.

The use of part-time staff has also grown. Even managerial cover is being hired out to short-term or interim executives, often used to run special projects or to act as a stop-gap between permanent appointments when a key executive leaves unexpectedly.

This increasing variety of staffing options is creating greater potential for HR specialists to buffer their companies against the need for compulsory redundancies. "You don't see so much of the large scale redundancies that were experienced in the 1980s and early 1990s, simply because people have recognised the extensive re-engineering approaches fashionable at the time have had so many negative effects," says Clive Morton, human resource director at Anglian Water.

"More companies are trying to achieve the numbers through natural wastage and compulsory redundancy is seen as a last resort, much more so than in the past," says Angela Baron, policy adviser on employment at the Institute of Personnel and Development.

Companies learned in the last recession, she says, about the damaging consequences to morale and performance among those remaining after a redundancy programme. Voluntary redundancy can also have unforeseen consequences. "Often the people who think they are more likely to be able to get a new job are the ones who volunteer and some companies get their fingers burnt when people they want to keep say they want to leave," says Ms Baron.

When choosing people for redundancy the old principle of last in, first out has been almost universally abandoned in favour of using a range of criteria, such as attendance records, skills, training needs and perceived future potential.

Anecdotal evidence suggests also, says Ms Baron, that companies will use covert ways to get rid of people, such as suggesting to an individual that he starts looking for another job or telling someone they have no future in the company.

But one of the biggest developments in job shedding has been the use of outplacement specialists. Originally used in the US as a way of easing the exit of executives while at the same time salving the conscience of the board, outplacement – the practice of helping people find a new job or career – has become increasingly sophisticated, moving into areas such as career development.

"The more forward thinking companies are taking a good look at the sort of skills they are going to need for the future and trying to sort people on that basis," says Frances Cook, managing director of Sanders & Sidney, the outplacement company.

'The old principle of last in, first out has been almost universally abandoned'

But many companies, she says, are still persuading people to take early retirement. "That's sad for many reasons because the culture of many organisations is embedded in the longer serving people," she says.

On the other hand, companies are improving the way they plan for job shedding. "It is not unusual, these days, for some people to be told up to a year in advance that their job may be going," she says. This offers scope for redeployment of some and gives time for others to find alternative work.

Outplacement specialists, she says, are not involved in the selection of people for redundancy but they do get involved in advising managers and advising employees whether, for example, a proposed redeployment is the best career step they could take.

"When you look at the downsizing that went on about 10 years ago some people were just in the wrong place at the wrong time. It has meant there is less of a stigma to losing your job today," says Jo Bond, managing director Wright Management Consultants in the UK. "But the whole scene has changed. We are seeing a growing use for our services in mergers and acquisitions," she says.

"Part of our job is to help people in companies face the reality of changing careers, equipping them with career resilience, helping them deal with redeployment and ensuring they keep their CVs up to date. No-one can afford to be complacent about their career any more."

WOMEN ON BOARD by Richard Donkin

Pay is catching up, but numbers are not

Identifying the reasons why so few women have made it to the boardroom remains as elusive as ever

Strong signs that women are breaking through pay and promotion barriers in management emerged in a recent report promising new hope for those whose ambition is to reach the pinnacle of a management career. But making that final leap into the boardroom is proving a far more difficult task.

In spite of the rhetoric of equality, women remain woefully under-represented at the top of the corporate ladder where men continue to dominate. The picture is the same in the US as it is in the UK – a few women are making it to the top, but not in any great numbers. The question some are beginning to ask today is not so much when will the real breakthrough happen, but will it happen at all.

On paper, at least, the evidence suggests that the talent pool of women may be reaching a critical mass. US education statistics show that women now slightly outnumber men in the possession of college degrees. The question remains, however, will the new generation prove equally susceptible to mid-career fall out among women who either break from their careers to have families or simply grow disillusioned with the politics of traditional management?

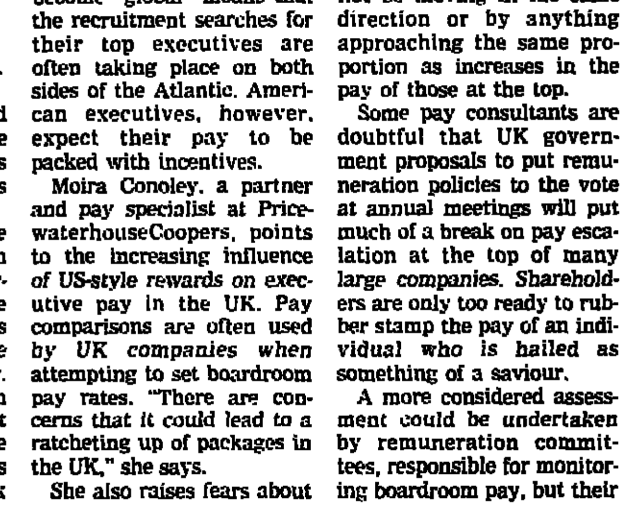
A report published jointly by the Institute of Management and Remuneration Economics, a pay consultancy, found that women now occupy almost a fifth of UK management posts compared to 3 per cent of management jobs in 1973 and that their pay, in the middle tiers of management at least, is catching up with that of men.

On the other hand, the study exposed a continuing gender gap in the boardroom, showing that women occupy few executive roles. The extent to which the progress of women into the boardroom has been much more of a trickle than a flow was revealed in comparisons made by Ashridge Management College.

The Ashridge research found that, in the top 200 UK public companies in terms of revenues, women could be found on the boards of 84 companies in 1997 compared with 49 companies in 1993.

Women held less than 5 per cent of the 2,000 directorships and a big majority of these posts were non-executive. In fact, the Ashridge research showed that the ratio of women in non-executive posts to those in executive posts had declined over the four years. The number of women executive directors had risen from 11 to 18.

Such small executive representation suggests that women continue to be marginalised in the very top jobs. When June de Moller was made managing director of Carlton Communications in 1993, she was, significantly, not named chief executive, leaving little doubt of Michael Green's seniority as chairman. The FTSE 100 had to wait until 1996 before Marjorie Scardino became its first female chief executive



June de Moller: a former power at Carlton Communications — AP

when she took over at Pearson.

Ms Scardino's success, repositioning Pearson as a publishing and media conglomerate, has put her at the top of most headhunting lists in the UK for clients seeking non-executives. But it has not led to any great surge of women into boardrooms.

The failure of Ann Iverson, an American like Ms Scardino, to revive the fortunes of Laura Ashley, the fashion retailer, demonstrated that gender is not in itself a guarantee of success. But neither does it explain the dearth of women bosses.

Opinions differ when searching for an explanation. Gail Redwood, company secretary at British Airways, has mooted what she calls a "generation problem". As a younger crop of men take more senior roles, she says, there will be a growing acceptance of women at senior levels.

But Susan Bloch, head of the executive coaching practice at Hay Management Consultants, believes it is unrealistic to expect any great change in the next two or three years. "There are still some prejudices there. A lot of women are setting up businesses on their own. They tend to be quite entrepreneurial but some are lacking in confidence," she says.

The observation is supported by US statistics gathered by Catalyst, a research company, and published in Fortune Magazine in October. They showed that women constituted just 11 per cent of Fortune 500 managers and 11 per cent of corporate directors. But the findings also pointed to an increasing number of US women leaving high ranking corporate positions to strike out on their own.

"I find there are two groups of women today. One group is highly ambitious and competitive, often comprising women in their 20s, and another group seems happy to settle for second best," says Ms Bloch.

"I think there is a need to build confidence in women and they need to build networks. Often, I'm asked where they can network with other women but they need to be networking with other men."

The harshness of boardroom power games was experienced by Barbara Moorehouse, former finance director of Morgan Sindell, the quoted UK construction group, who lost her job when the company decided to bring back her predecessor into his former role.

"My job was reorganised out," she says. Although her position in the construction industry was unusual she says most of the men below her were easy to deal with. "Equally, I found a number who found capable, intelligent career women very frightening and that happens in all industries. Some senior men react to female colleagues in the same way that some people react to cats."

Ms Moorehouse now works as an interim executive, but does not rule out a permanent appointment if the right job comes along. "I did find that the workplace can be unsupportive of a women's lifestyle and women tend to be far less interested in the game playing and politics."

Yve Newbold, a partner at Heidrick and Struggles, says she sees little sign of any radical changes in boardroom composition. "Over the last three of four years we have seen almost zero change. Yes, there are more women non-executives in the FTSE 100, but there are few executive directors and I don't think any of us understand what's happening.

"I suspect that among board chairmen, people are not yet sure or convinced that women add value. We are going to need a lot more Scardinos who have stood in the muck and bullets of a chief executive's position. It's pathetic that there is only one."

BRANDS by John Willman

Extension brings its rewards

Development of these valuable assets into related products will succeed only if consumers continue to get the message

Instantly recognisable brands: the value of a brand may well be greater than that of physical assets owned by the company

Montage by Gary Cummins: Pictures AP

There are good reasons for companies to exploit their brands in related – and not so related – areas of activity, according to Adrian Day of Landor, the global branding consultancy.

"Directors have to make their assets sweat and brands are often their biggest assets," he says.

Just how big is a matter for debate, but one US magazine valued the Coca-Cola brand at almost $50bn in 1997 and Nestlé's Nescafé at more than $10bn. Such figures far outweigh the value of any physical assets owned by these companies.

This point was dramatically illustrated last year when Bacardi-Martini paid £1.15bn to buy Dewar's White Label scotch whisky and two up-and-coming gins, Bombay and Bombay Sapphire. The only assets apart from the three brands were four Scotch distilleries employing 49 people and a 15-year agreement for the supply of ingredients, blending and storage.

The Bermuda-based drinks group owns the white rum, which is the world's best-selling spirit, and is a consummate brand manager. It will expect to restore Dewar's sales – in decline since 1990 – and use its acquisition to boost sales of its other products by offering a bigger portfolio of international brands.

But it is also likely to use the Dewar's and Bombay brands on new products, a strategy it has already applied with great success on its flagship brand. The eponymous white rum has acquired an extended family of related brands.

Marketing specialists call it brand extension – the development of related products that can attract new consumers and help fend off competitors by creating specialist niches. In its more radical manifestations, it becomes brand-stretching when the popularity of one consumer brand is used to launch another kind of product altogether – as Coca-Cola intends to do by launching a fashion clothing range.

The benefits of such strategies are attractive: a seminal study of the subject five years ago in the Harvard Business Review said the cost of a successful brand launch in the US was estimated at $30m, with only one in five surviving longer than a year: a line extension typically cost $5m to launch.

"Line extensions offer quick rewards for minimal risk," the article said.

It went on, however, to highlight what it called "the pitfalls of proliferation". These include diluting the strength of the original brand, weakening brand loyalty by encouraging consumers to seek variety, and increased costs without commensurate sales growth. It recommended careful cost-accounting to track the profitability of new lines and more focused product ranges to deliver better value for consumers.

An alternative to proliferation is vertical extension – taking a brand up or down market. In some cases this is undertaken for offensive reasons. Mercedes created the C-class range below its luxury S class to compete with BMW's 3 series and Japanese luxury brands such as Toyota's Lexus.

In others it is defensive, to stop competitors cutting into their market from above or below in the price range. Gap, the clothing retailer, launched its cheaper Old Navy chain when competitors began offering similar fashion ranges at lower prices. Since then, it has sought to capture older consumers with more to spend through its Banana Republic shops.

"Brands can easily get tired and institutionalised," says Simon Williams of Sterling Group, a New York branding consultancy. "Gap continues to grow, morphing into something else with agility and creativity."

Vertical extension carries its own risks, especially if the launch of a down-market model undermines the appeal of the core brand. Mercedes seemed in danger of doing just that with its A class "Baby Benz" which flipped over in tests, risking the carmaker's hard-won reputation for safety and high engineering standards.

The risks can be equally great in brand-stretching. Richard Branson has stretched his Virgin brand to cover a range of products including an airline, fashion clothing, cosmetics and financial services. But some analysts believe he may have gone too far by becoming a train operator on some of the UK's poorest performing routes.

The essence of his appeal, says Brian Boylan of Wolff Olins, the corporate identity consultants, is that he helps the consumer get a better deal – a proposition it is hard to sustain with complaints from rail passengers over fares, dirty trains and overcrowding.

"The jury's out on the extent to which he will be forgiven," he adds. "I am sure the airline's image is tarnished by the trains' performance."

Yet the rewards for successful extension can be great – as can be seen from companies such as Walt Disney which has evolved from a film-maker into a publisher, retailer and theme park operator.

The key to exploiting a brand successfully in these ways is absolute clarity about what it stands for, says Landor's Adrian Day. "A brand is a contract with the consumer," he says. "Whatever it is applied to must fulfil that contract."

MERGERS by Jane Fuller

Not easy to account for this taste

A partnership of equals can offer real opportunities, provided the question of leadership is not fudged

Anyone would think from the recent rash of merger announcements that this was always the way companies got bigger.

It is not, and for good reason. Mergers are probably the most difficult kind of acquisition. Indeed the few advantages they have over takeovers are mostly to do with accounting treatment, which is never a good basis for doing anything.

Mergers, or poolings of interest as they are called in the US, allow the two companies to add their balance sheets together. This means that goodwill does not have to be written off against profits over several years, as it would be in most takeovers.

But to qualify as a merger, rather than a takeover, the deal needs to involve "equals". And that is where the trouble starts.

Take Royal & Sun Alliance. When the two insurers announced their merger on May 3 1996, the following convoluted managing structure was put in place: Sir Christopher Benson, who chaired Sun Alliance, chairman, Mr Allan Gormly, Royal's chairman, non-executive deputy chairman, Mr Roger Taylor, chief executive of Sun Alliance, executive deputy chairman, Mr Richard Gamble, Royal, chief executive.

Who was wearing the trousers? Well, none of them any longer. RSA is now chaired by Patrick Gillam, and Bob Mendelsohn has become chief executive. The original fudge at the top became identified with the company's failure to deliver gains from their combination.

One of the reasons ambiguity at the top seems to impede mergers is that strong leadership is needed for the ruthless work of cost-cutting. Savings are typically one of the main reasons for the deal, especially in industries under pressure. In insurance, the push for consolidation has come from mounting underwriting losses; in oil, from plummeting prices.

One way to look at savings is to calculate how much value they create. The shorter the timescale for achieving them, the greater their present value. Hence the importance BP Amoco – in a merger completed at the turn of this year – has attached to achieving $2bn of savings by the end of year one, half the original time allowed. Using a discount rate of 8 per cent – a typical cost of capital – the speeding up alone is worth $180m. But it also suggests that Sir John Browne, chief executive, and his right-hand men from BP have got a real grip on the combined business.

This may mean that those running the more recent mergers have learnt from their predecessors' problems. Among the examples is the one that did not happen – between Glaxo Wellcome and SmithKline Beecham. The failure to settle the power struggle between Sir Richard Sykes, of Glaxo, and Jan Leschly, of SmithKline, seemed a trivial reason for calling off talks early last year. But without clear direction from the top, the risks of failure in delivering promises would have been great.

Once a merger can be redefined as a closet takeover, the challenges become the same as with any other deal. This includes proving that neither party was overvalued in the exchange of equity.

But even where the issues are straightforward, there is inevitably a prolonged period of uncertainty between unveiling the deal and defining new roles and targets. During this time, unsettled staff may depart – the best will find it the easiest to move on – and so will some customers.

Nevertheless, such upheavals need not be entirely counter-productive. Deals that sweep away mediocre managers provide a fresh opportunity to promote on merit. Beauty parades of suppliers can lead to an eventual list that is shorter, cheaper and better.

At Diageo, the food and drinks group formed from Grand Metropolitan and Guinness, the prevailing view about 15 months after the merger's completion is that change provides opportunity.

It also provides the new company with a "transition year" into which a big set of restructuring charges and writedowns can be put. Such losses seem almost benign in the afterglow of a good merger story. In share price terms, the difficulty will often emerge in year two or three when investors become impatient for maximum benefits to be delivered.

But even if the rationalisation phase proves a success, another danger point crops up: how to move on to develop the new culture. This has been described as "the soft stuff" by Bob Bauman, first chief executive of SmithKline Beecham after the 1989 merger. The process involved burying the two companies' separate histories, plus a high turnover of senior management so that a new culture could emerge.

Bauman co-wrote a book on the subject which was published in early 1997. A year later, SmithKline was again talking about merging: first with American Home Products, then with Glaxo Wellcome. Even the apparent success stories do not solve for ever the problems that drove their parents together.

INTERVIEW
SANDY LEITCH

Playing in the world league

Adopting a global outlook has become a necessity for Sandy Leitch, the genial Scotsman who is chairman of the Association of British Insurers, the trade body that speaks for 450 companies.

For Leitch, 51, now sits on the management board of Zurich Financial Services, Europe's third largest insurer, which has 68,000 employees in more than 50 countries.

Leitch was chief executive of British American Financial Services, which merged last year with Zurich Group, the Swiss-based insurer, after the UK-based conglomerate BAT Industries decided to focus on tobacco. He is now chief executive of the UK, Ireland and Southern Africa region of the enlarged group, Zurich Financial Services.

"For me, it's different. It was very stimulating to sit on the BAT board and talk about tobacco issues – and from a business point of view, absolutely fascinating. I now sit on a board where we talk about savings, long-terms risks and insurance, asset management, reinsurance – and it's all the same field. It is like moving from playing for Dunfermline to playing in the World Cup."

It is certainly a long way away from the small Fife coal-mining village in which Leitch was born, the youngest of four children. His father, a miner, died when he was two, without pension or life insurance. His mother and the children were taken in and supported by her widowed father, also a miner.

Leitch recalls a "very happy" childhood. "There was not much money, but in certain situations you don't need much money to be happy. I remember in my teens my grandfather saying to me there wasn't any need to worry financially because he had his pension and that stuck with me for many years."

Leitch had qualified to go to university by the time he was 16. But the "very career conscious" youngster was attracted by London in the mid-1960s and obtained a job with National Mutual Life, a venerable life company.

Given the choice of training as an actuary or a computer programmer, the young hopeful opted for the then novel world of computers. "I took to it like a duck to water. Programming teaches you to think analytically, which stays with you for the rest of your life."

At the age of 21, Leitch was National Mutual's chief systems designer, having never opened his actuarial textbooks.

In 1971, Leitch joined the launch of Hambro Life, the life insurer that later became Allied Dunbar. A few months later, his boss left and Leitch was asked to take over as head of systems.

"I was 23 and they said it's your job to design the computer systems – a task that was actually too big for me. But you don't think about it too much at the time – you think: 'I'm going to do this'. It was a wonderful period."

Starting with a clean sheet of paper, Leitch's team developed computer systems at Allied Dunbar that were state of the art for the life insurance industry. It was this success that was the foundation of appointment to the board in 1981.

However, Leitch's ascent was not untroubled. In his early thirties, married with three daughters, he became seriously ill for three months and thought he might die. "I remember thinking that, if the worst happens, at least I've got my insurance – at least the finance side is covered."

Sandy Leitch: a need to learn

Leitch also suffered professional disappointment in 1991 when BAT brought in George Greener, head of the Mars Corporation's UK confectionery business, to lead Allied Dunbar. Leitch considered leaving but eventually decided to stay and see what he could learn from his new boss.

"I think one of things I've got is a continual need to learn and I'm prepared to go into zones of discomfort to learn, prepared to learn from anybody as long as it helps to improve me in the businesses that I'm in."

In 1993, Greener was also given responsibility for Eagle Star, BAT's general insurance company, and Leitch was finally made Allied Dunbar's chief executive. When Greener left in 1996, Leitch was appointed chief executive of BAT's financial services.

Leitch says: "That was interesting because I had become chief executive of Allied Dunbar which was my dream job. This was the company I loved, the company I had worked for 20 years, the company I believed in – and all of a sudden I was given more. In a sense you think: do I want more? This is my perfect job. But every time I get to the top of one mountain, I think I'm satisfied, but I'm not because I see the other peaks I want to scale. That's how I feel now."

Andrew Bolger